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Report No. 14818

PERFORMANCE AUDIT REPORT

SENEGAL

THE FOURTH STRUCTURAL ADJUSTMENT CREDIT
(CREDIT 2090-SE)

AND THE

FINANCIAL SECTOR ADJUSTMENT CREDIT
(CREDIT 2077-SE)

JUNE 30, 1995

Operations Evaluation Department

Currency Equivalents

Currency Unit: CFA Franc (CFAF)

US$1.0 (1988) = CFAF 298
US$1.0 (1989) = CFAF 319
US$1.0 (1990) = CFAF 272
US$1.0 (1991) = CFAF 303
US$1.0 (1992) = CFAF 265
US$1.0 (1993) = CFAF 287

Weights And Measures

Metric System

Abbreviations And Acronyms

ADB	:	African Development Bank
AGETIP	:	Agence d'exécution des travaux d'intérêt public contre le sous-emploi (Public Works and Employment Project I)
BIAOS	:	Banque Internationale pour l'Afrique Occidentale du Sénégal
BICIS	:	Banque internationale pour le commerce et l'industrie du Sénégal (Commercial Bank)
BIS	:	Banque Islamique du Sénégal
BSK	:	Banque Sénégalo-Koweitienne
BCEAO	:	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BNDS	:	Banque Nationale de Développement du Sénégal
BOAD	:	Banque Ouest-Africaine de Développement
CBAO	:	Compagnie Bancaire de L'Afrique Occidentale
CNCAS	:	Caisse Nationale de Credit Agricole du Sénégal (CNCAS)
CFA	:	Communauté Financière Africaine (African Financial Community)
CIF	:	cost insurance freight
CSS	:	Compagnie Sucrière Sénégalaise (Sugar Company)
EFF	:	Extended Fund Facility
ESAF	:	Enhanced Structural Adjustment Facility
FSECAL	:	Financial Sector Adjustment Credit
MASSRAF	:	Massraf Faygal Al Isami du Sénégal
ONCAD	:	Office national de coopération et d'assistance au développement (defunct groundnut marketing agency)
NTBs	:	nontariff barriers
OED	:	Operations Evaluation Department
PAGD	:	Projet d'Appui à la Gestion du Développement (Development Management Project)
PE	:	public enterprise
SAF	:	Structural Adjustment Facility

SAL	:	Structural Adjustment Loan
SAR	:	Société Africaine de Raffinerie (Oil Refinery)
SDR	:	Special Drawing Rights
SECAL	:	Sector Adjustment Loan
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
SOCOCIM	:	Société Commerciale des Ciments (Cement Company)
SONACOS	:	Société Nationale de Commercialisation des Oléagineux (Groundnut Oil Company)
SOFISEDIT	:	Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme
SDID	:	Société de Développement International Desjardin
SONABANQUE	:	Société Nationale de Banque
SONAGA	:	Société de Guarantie d'Assistance et de Credit
SNR	:	Société Nationale de Recouvrement
UMOA	:	Union Monetaire Ouest Africaine
USAID	:	United States Agency for International Development
USB	:	Union Sénégalaise de Banque pour le Commerce et l'Industrie (USB)
SPA	:	Special Program for Africa
TSECAL	:	Transport Sector Adjustment Loan
USAID	:	U.S. Agency for International Development
ZFID	:	Zone Franche Industrielle de Dakar (Industrial Free Zone)

Fiscal Year

July 1 - June 30 = Up to June 30, 1991
July 1 - December 31 (18 months) = For FY 1991/92
January 1- December 31 = Starting January 1, 1993

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 30, 1995

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Senegal Fourth Structural Adjustment Program (SAL IV, C2090-SE) and Financial Sector Adjustment Credit (FSECAL, C2077-SE)

Attached is the Performance Audit Report (PAR) on the Senegal Fourth Structural Adjustment Program (SAL IV, C2090-SE, approved FY90) and the Financial Sector Adjustment Credit (FSECAL, C2077-SE, approved FY90) prepared by the Operations Evaluation Department.

Both SAL IV and FSECAL were approved almost simultaneously, in late 1989 and early 1990, to continue support to the structural adjustment program initiated in the early 1980s. The earlier adjustment operations had mixed success, but their reforms were not sustained. By the time SAL IV was approved, the overvaluation of the CFA franc had become a very serious problem. Most of the structural measures addressed by SAL IV were taken upfront by the Government, but during the implementation period the critical measures dealing with fiscal austerity were reversed. The second tranche was released, in 1992, with a waiver, and the third tranche was cancelled in 1993, when the credit was closed.

The FSECAL aimed at, and largely succeeded in, restructuring Senegal's banking sector following the adoption of (Bank-inspired) region-wide reforms by the West African Monetary Union (UMOA): the weak banks were liquidated and the viable banks were strengthened through a program of partial privatization and financial restructuring. The collection of bad debts, however, met with only partial success, despite modest objectives.

The main lesson of SAL IV is that the use of fiscal compression to compensate for a large overvaluation of the exchange rate is likely to fail because of the serious decline in incomes and employment that it will require. On the other hand, the FSECAL used the right instruments to address the problems of the financial sector and helped Senegal benefit from the devaluation of the currency in 1994. The banks were healthy and liquid at the time of the devaluation, and were able to respond to the needs of the enterprises following the devaluation.

The outcome of SAL IV is rated as unsatisfactory, sustainability is rated as unlikely and institutional development as modest. The outcome of FSECAL is rated as marginally satisfactory, sustainability as uncertain and institutional development as substantial.

These ratings agree with those made by the respective Project Completion Reports (PCRs) for these two operations.

Attachment

Contents

Annexes

This report was prepared by Gerardo Sicat (Task Manager) and Louis Goreux (Consultant) who audited the loans in February 1995. Alejandra Sarmiento provided administrative support.

Preface

This is the Performance Audit Report (PAR) on the Fourth Structural Adjustment Credit (SAL IV, Credit 2090-SE) and the Senegal Financial Sector Adjustment Credit (FSECAL, Credit 2077-SE). SAL IV was approved on February 8, 1990 in the amount of SDR 62.4 million. Three supplemental credits were made totaling SDR 12.1 million. The first two tranches of SDR 25 and SDR 18.7 million were disbursed in full. The supplemental credits of SDR 12.1 million were fully disbursed with the first two tranches. The third tranche was cancelled. The FSECAL was approved by the Board of Executive Directors on December 18, 1989 in the amount of SDR 35.3 million. It was fully disbursed and closed on June 30, 1992.

The PAR was prepared by the Operations Evaluation Department (OED). It is based on the President's Reports, the loan documents, sector and economic reports, the project files, the summary of the Board discussions, discussions with Bank staff, and the Project Completion Reports (PCRs) prepared by the Africa Region. An OED mission visited Senegal in February 1995 and discussed the effectiveness of the Bank's assistance with Government officials, representatives of private sector, business organizations, and labor unions. Their kind cooperation and invaluable assistance in the preparation of this report is gratefully acknowledged.

The PCRs for the structural adjustment and the financial sector adjustment credits provided a balanced account of accomplishments and shortcomings of these two operations. The PAR discusses the historical context and background of adjustment in Senegal, the objectives and implementation results of these operations, draws conclusions on their outcomes and sustainability, and derives lessons of experience. The structural adjustment efforts under SAL IV began well, but they were not sustained. The difficult reforms could have taken hold if devaluation had first taken place, as evidenced from the post-devaluation experience in Senegal. The financial restructuring was undertaken as part of regional reforms in the West African Monetary Union, and the restructuring of the banks in Senegal led to the establishment of more healthy banks. The ratings in this PAR agree with the ratings in the PCRs for SAL IV and the FSECAL. However, institutional development in the case of the FSECAL is rated as substantial in the PAR, instead of modest, as in the PCR. The difference in the rating is primarily due to the weight placed on the reforms undertaken by UMOA, which led to stronger institutional reforms in central banking and which affect financial operations in Senegal.

This version takes into account the comments that have been received from the Borrower and the BCEAO (see Annex C).

Basic Data Sheet

Fourth Structural Adjustment Credit *(Loan 2090-Sen)*

Credit Position *(Amounts in US$ million)*

				As of October 14, 1993 *(in US$ million)*	
	Original	*Disbursed*	*Cancelled*	*Repaid*	*Outstanding*
Cr. 2090-0	80.0	59.43	23.97	0.0	61.58
Cr. 2090-1	4.4	4.75	0.0	0.0	4.93
Cr. 2090-2	7.1	6.96	0.0	0.0	7.19
Cr. 2090-3	4.7	5.05	0.0	0.0	4.93

Project Dates

	Cr. 2090-0	Cr. 2090-1	Cr. 2090-2	Cr. 2090-3
Initiating memorandum	06/20/89			
Letter of Dev. Policy No. 3	12/29/89			
Negotiations	12/11/89			
Board Approval	02/08/90	05/18/90	11/06/90	04/28/92
Credit Agreement	02/09/90	06/11/90	096/27/91	06/23/92
Effectiveness	02/22/90	07/05/90	09/23/91	09/23/92
Loan Closing	10/31/92	04/30/92	04/30/92	06/23/93
Actual completion				

Cumulative Loan Disbursement *(in US$ million)*

	FY90	FY91	FY92	FY93
(i) Planned	32.0	56.0	80.0	0
(ii) Actual	30.58	44.4	69.58	76.19
(iii) (ii) as % of (i)	96%	79%	87%	100%

Mission Data

	Month/Year	Avg. No. of Weeks	No. of Persons	Staff Weeks	Mission Date of Report
Preparation	11/88	2.5	12	30.0	11/24/88
Appraisal	07/89	2.5	13	32.5	07/21/89
Supervision I	05/90	2.0	6	12.0	05/22/90
Supervision II	12/90	2.0	4	8.0	12/18/90
Supervision III	06/91	3.0	4	12.0	06/14/91
Supervision IV	10/91	2.0	3	6.0	10/28/91
Completion					
TOTAL			42	100.5	

Related Bank Loans and Credits and/or Follow-on Adjustment Operations

Loan/Credit No. & Title	*Approval Date*	*Purpose*	*Status*
Cr. 1656-SE SAL I	February 1986	To support a comprehensive actions program of policies and measures aimed at accelerating growth in production and employment and strengthening public sector management.	Closed.
Cr 1656-SE SAL II		Follow-up balance of payments support for reform and adjustment program.	Closed
Cr. 1802-SE SAL III	May 1987	To provide continued support to reforms started under SAL II, and for increasing public resource management.	Closed
Cr. 2266-SE Transport Sector SECAL	June, 1991	Seeking to improve transport efficiency and reduce transport costs.	Supervision
Cr. 1910-SE TA Development Management	May, 1988	Strengthen economic management and planning institutions and personnel management.	Closed
Cr. 1868-SE Industry Sector	December, 1987	Support to industry adjusting to policy reforms, to displaced workers in industrial sector, and to local institutions.	Supervision
Cr. 2077 Financial Sector Adjustment	December, 1989	Financial sector restructuring program.	Closed

Staff Input *(Missions & Headquarters in staffweeks)*

	FY88	FY89	FY90	FY91	FY92	FY93	FY94	TOTAL
LENA	0.6	0.6						1.2
LENN			26.7					26.7
LENP	52.9	64.3	94.0					211.2
SPN			41.9	46.0	18.9	1.8		108.6
PCR							3.5	3.5
TOTAL	53.5	64.9	162.6	46.0	18.9	1.8	3.5	351.2

Financial Sector Adjustment Credit *(Credit 2077-SE)*

Credit Position *(Amounts in US$ million)*

(in US$ million)

	Original	*Disbursed*	*Cancelled*	*Repaid*	*Outstanding*
Cr. 2077	45.0	47.6	0		55.6

Project Dates

First Mention in Files (as an independent operation)	June 1987
Issues Paper	April 19,1988
Pre-Appraisal	May 2-20, 1988
Letter of Financial Sector Development Policy	November 3, 1989
Appraisal mission	June 15-30, 1989
Negotiations	November 2-3, 1989
Board approval	December 18, 1989
Credit signature	December 18, 1989
Credit effectiveness	December 21, 1989
First tranche available	December 21, 1989
Second tranche release	February 21, 1992
Actual Closing Date	June 30, 1992

Cumulative Loan Disbursement *(in US$ million)*

	FY89	FY90	FY91	FY92	FY
(i) Planned	na				
(ii) Actual					
(iii) (ii) as % of (i)					

Staff Inputs

	LENP	*LENA*	*SPN*	*PCR*	*Total*
1988	53.8				53.8
1989	56.0				56.0
1990	16.6	1.3	11.5	39.5	68.9
1991				25.2	25.2
1992				7.0	7.0
1993				7.8	7.8
	126.4	1.3	11.5	79.5	218.7

Related Bank Loans and Credits and/or Follow-on Adjustment Operations

Loan/Credit No. & Title	*Approval Date*	*Purpose*	*Status*
Cr. 1656-SE SAL I	February 1986	To support a comprehensive actions program of policies and measures aimed at accelerating growth in production and employment and strengthening public sector management.	Closed.
Cr. 1802-SE SAL III	May 1987	To provide continued support to reforms started under SAL II, and for increasing public resource management.	Closed.
Cr. 2909-SE SAL IV	February 1990	To support process of structural reforms began in 1985 by two previous SALs.	
Cr. 2107-SE Agriculture Sector (SECAL)	March 1990	To generate adequate lower risk technology for improving farmers' and herders' incomes in a sustainable manner and undertake priority research programs at the Research Institute (ISRA).	Supervision
Cr. 2266-SE Transport Sector Adjustment	June 1991	Seeking to improve transport efficiency and reduce transport costs.	Supervision

Mission Data

	Month/Year	*No. of Weeks*	*No. of Persons*	*Staff Weeks*
Preparation	May 1988	2.5	6	15
Appraisal	June 1989	.5	2	1
Negotiations	March 1988	.5	4	2
Supervision I	March 1990	1.5	1	1.5
Supervision II	June 1990	1	3	3
Supervision III	October 1990	1.5	1	1.5
Supervision IV	May 1991	2	1	2

Evaluation Summary

Introduction and Background

1. The Financial Sector Adjustment Credit (FSECAL, Credit 2077-SE) and the Fourth Structural Adjustment Credit (SAL IV, Credit 2090-SE) were made to Senegal almost simultaneously, in late 1989 and early 1990, in continuation of the Bank's support to the Government's structural adjustment, which had been initiated in the early 1980s.

2. The FSECAL was approved by the Board of Executive Directors on December 18, 1989 in the amount of SDR 35.3 million, with cofinancing from France (US34 million) and the United States (US$33 million). The first tranche representing 60 percent of the credit was made available on December 21, 1989. The second tranche was released nine months later. It was fully disbursed.

3. SAL IV, in the amount of SDR 62.4 million (US$80 million), was approved on February 8, 1990 and became effective on February 22, 1990. The first two tranches of SDR 25 million and SDR 18.7 million were disbursed in full. The third tranche was canceled. Three supplemental credits totalling SDR 12.1 million from the IDA Fifth Dimension were disbursed in addition to the first two tranches.

4. Senegal has had a series of adjustment operations supported by the Bank since 1980. The Bank canceled the second tranche of SAL I on June 30,1983 on the basis of poor performance. SAL II and III were approved in February 1986 and May 1987. Concurrently with these Bank programs, the IMF also supported Senegal with EFFs and ESAFs.

5. Although the outcomes of SAL II and III were on balance satisfactory, the reforms were not sustained. Industrial growth continued to decline, especially in the face of competition from imports. Employment in the formal sector declined much more than foreseen. The informal sector expanded rapidly. To avoid a collapse of the formal industrial sector, the government raised tariffs in August 1989 and, by the end of 1989, the level of protection had virtually returned to its 1985 level.

6. The serious overvaluation of the CFA franc had major consequences for Senegal's adjustment strategy. By the time of SAL IV, it was apparent that devaluation was essential to restore growth and competitiveness. In addition, there were serious structural problems that needed to be solved to make adjustment successful: the fiscal deficit (which was inherently linked to a high wage bill and to an inefficient, highly indebted public enterprise sector), the rigid labor market, and highly regulated industrial incentives framework. The main problem was whether the policies under SAL IV could be put in place without a devaluation taking place first. The Bank decided to proceed with SAL IV on the belief that the structural reforms were essential to growth in Senegal, even if a devaluation were to take place during the adjustment period.

7. It was also clear that Senegal's banking system was virtually and dangerously near complete collapse. A financial sector adjustment program was needed to restore the system to health. But the FSECAL did not face the same problem as SAL IV. The restructuring of

the banking system was not dependent on devaluation, but was a precondition for a successful devaluation.

SAL IV: Objectives and Results

8. SAL IV addressed stabilization and structural issues that hampered competitiveness of Senegal's economy. The macroeconomic stabilization strategy aimed at reducing the current account deficit by lowering overall demand through public expenditure reduction and improvement of export activity in the private sector. The structural reforms focused on four objectives, namely, to: (i) improve production incentives by reducing the tax burden of the corporate sector, containing the costs of production, and removing labor market rigidities; (ii) rationalize public current expenditure by downsizing the civil service and increasing its productivity; (iii) undertake reforms in the public enterprise sector by cutting all subsidies to them, eliminating cross-debts between enterprises, and pursuing an aggressive privatization program; and (iv) minimize the transitional costs for certain groups in society, in particular civil servants who lost their jobs during the adjustment program.

9. The performance of SAL IV was disappointing, despite some early successes. The design of the loan had much to do with it. First, its objective of restoring external equilibrium was based on a program of demand compression requiring very severe cuts in public expenditure that had to be sustained over a long time period. It also implied a positive supply response to improvements in regulations and incentives at a time of declining domestic demand. A sufficient nominal devaluation of the exchange rate taken upfront or simultaneously would have assured that relative prices would adjust immediately. Combined with fiscal austerity, this measure would have cut imports and encouraged exports , thereby correcting the competitiveness problem (as subsequent events would show, when devaluation was finally taken). The Bank proceeded with SAL IV on the assumption that the structural reforms would be needed for the adjustment to succeed. It was also premised on the possibility that some consensus on the devaluation issue would be forthcoming in the future. But, like the reforms of the UMOA on financial and credit policies, a devaluation required a concerted action, with France as a major participant. Agreement on this issue took time, since there was no consensus among the member countries and donors.

10. Second, given that the structural reforms were needed for full adjustment, the issue was whether these reforms could be implemented and sustained under the stabilization strategy. To assure their implementation, the key policy decisions were taken by the Government before loan approval. The upfront measures were undertaken in the following areas: tax and administrative system; civil service; private incentives; wage and labor market; privatization and public enterprise sector. Nonetheless, in the case of labor reforms, the major measures still had to be taken, and these, together with actions on domestic pricing of energy and telecommunications, were expected to materialize before the release of either of the two final tranches of SAL IV.

11. The structural reforms were unable to produce the desired benefits. Under a declining economy, the tax and revenue reforms did not yield the expected increase of revenues. Changes in incentives failed to improve employment, income, and output. The supply response assumptions were optimistic. The reduction of the cost of domestic inputs — energy and telecommunications — did not make much headway in containing domestic

nonlabor costs. Important labor code changes were not implemented. Although cross-debts in public enterprises had been reduced considerably in advance, they again reappeared. Although the civil service reform enforced a program of voluntary departures, the Government relaxed on recruitments and ended up hiring more new employees than departees from the service. The result was that there were more civil service employees, and there was a larger wage bill by the time of loan closing . Hence, serious policy reversals occurred which put the structural reforms off track. Institutional measures sought under SAL IV (such as those linked with tax and administrative reforms, labor market regulations, privatization and public enterprise reforms) were undertaken, but due to the same reversals of policies of the key policies, the objectives were only modestly achieved, if at all.

12. The presidential elections of February 1993 affected the implementation of the difficult structural adjustment measures. The Government's commitment to reform weakened considerably during this period. The second tranche of SAL IV was released in 1992, waiving the adoption of the labor code changes to the third tranche release conditions. But by this period, the program had gone off-track in a major way. The Bank decided to cancel the third tranche in 1993, and the credit was closed.

Financial Sector Adjustment: Objectives and Results

13. The countries of the West African Monetary Union (UMOA) faced a financial crisis during the 1980s as a result of years of poor economic performance. The most critical case was Senegal which accounted for one fifth of the combined GDP of the union and over one fourth of its bad loans. As of end-September 1988, the value of non-performing Senegalese loans was half the value of total loans; it was equivalent to 3.7 times the sum of capital and reserves held by the Senegalese banking system which was therefore technically bankrupt. Senegal's banking crisis was a threat for the UMOA, but this crisis could not be resolved without modifying the rules and practices of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the central bank of the seven members of the monetary union.

14. Reform of the financial system in the member countries could not be undertaken without first curing the root cause of the problems, which required reforms at the regional level. Since Senegal is a member of the UMOA, the reforms at the regional level had to be implemented first. When approached for assistance to help in the financial sector restructuring of member countries of the CFA Franc zone, the Bank stressed that bringing in fresh money into the banking system made sense only if the policies were amended so that the same problems would not occur again.. As a result, the Bank completed by mid June 1988 a reform program which went through thorough negotiations among donors and regional agencies. A consensus was reached by the Council of Ministers of UMOA by all the parties in August 1989, four months before the FSECAL was presented to the Board.

15. By agreement of all the member governments, UMOA adopted region-wide reforms to close loopholes in credit and monetary policies, strengthen bank supervision, and liberalize the mechanism of credit allocation. Major loopholes in existing policy were closed by: placing crop credits under the overall ceiling; putting government refinancing of debt within the statutory credit ceilings of 20 percent; and abolishing preferential borrowing costs. With respect to bank supervision, the rules were made tighter by giving the BCEAO the sole responsibility for defining accounting standards and prudential ratios, conducting audits and

supervising banks in all member countries. In terms of credit allocation, the 1989 UMOA reforms abolished sectoral allocation of credit and liberalized the prior authorization mechanism. Banks which did not satisfy the prudential ratios exposed themselves to the risk of losing their license. The bank by bank credit ceilings were to be progressively replaced by market oriented mechanisms. The "normal" and the "preferential" interest rates were replaced by a new single money market rate which was fixed in relation to the Paris money market rate. Although this did not go far enough in the liberalization of interest rates, it was based on a meaningful structure of market determined interest rates.

16. The most important objective of the FSECAL that was put squarely on the Government's responsibility, once the central banking measures had been put in place by the regional monetary authorities, was to restore the health of the banking system in Senegal. The bank restructuring has corrected the problem of distressed banks. These measures were undertaken upfront, in line with the reforms in monetary and credit policies.

17. The closure of half of the existing banks was accomplished by liquidating the weakest banks and by pooling the sound assets of the other distressed banks and forming new banks. As a result, two new banks were formed. Five weak banks were initially liquidated. Two privately owned banks were given time to recapitalize themselves, and having failed to do so, were closed. Two specialized government banks remain problems, however: the national agricultural credit bank, which has a distressed portfolio, and a housing bank.

18. All the five surviving banks, except for the two problem banks mentioned, satisfy two established criteria: (i) being solvent, liquid and profitable; and (ii) having no more than 25 percent shares owned by the government. There is now a wider private sector ownership of the banking system. In addition to the effect of the financial reforms, partial privatization of the banks has forced a change in management style and lending culture among the banks.

19. The banking system was restored to health, but not all the objectives of the FSECAL have been reached. The recovery of bad debts was not as successful as expected. More of the bad debts of big borrowers could have been collected but were not.

Outcome, Institutional Development, and Sustainability

20. The FSECAL and SAL IV were approved by the Board within a few weeks of each other. The last disbursements were made two years later in early 1992. In short, these two adjustment operations took place at the same time, involving the same set of political and technical participants, both within Senegal and the World Bank. Yet, the outcomes of the two differed significantly.

21. The outcome of the FSECAL is rated as marginally satisfactory but that of SAL IV as unsatisfactory. SAL IV was a complex operation with several demanding reform components. Although these reforms were taken up front, they were unable to yield the desired benefits in the face of a strategy of fiscal expenditure reduction which caused declining incomes. Implementation was aggravated by declining political support for the measures during a time of national elections. On the other hand, the FSECAL was a well-focused operation. The basic objectives and instruments to achieve them were clear, and all

parties concerned were agreed on its need, and the key decisions had been taken before approval. Not all the objectives of FSECAL were fully reached, however.

22. The institutional development impact of the FSECAL is rated as substantial, while that of SAL IV as modest. The FSECAL was the first operation dealing with financial restructuring in the UMOA region. The prior reforms adopted by the UMOA led to the strengthening of regional central banking, in the first stage. The FSECAL reforms made the domestic banks in Senegal solvent. Because of the reversals of some SAL IV reforms, their institutional development impact was modest. The sustainability of the reforms of SAL IV is rated as unlikely, since the reforms initiated under SAL IV were not sustained. A large part of the financial reforms are implemented at the supra-national level, and they are less subject to any policy reversals that might happen in Senegal. Whether the banks in Senegal would develop into financially healthy institutions would, in the long run, depend on the success of structural adjustment. Therefore, the sustainability of the financial reforms is rated as uncertain.

23. Subsequent developments after the devaluation of the CFA franc have shown that the Government of Senegal could take hard decisions on policies that were consistent with the adjustment program under SAL IV. The devaluation took place under an austerity program which included a 15 percent cut of wages and adoption of reforms in the labor market which were not feasible before in view of the opposition of labor unions. The moves initiated by the Government, partly in response to the requirements of the economic emergency, might have resulted from a higher level program ownership after devaluation. This, of course, strengthens the prospects for growth and reform.

Lessons Of Experience

Common to SAL IV and FSECAL

24. *Program ownership.* As in other cases, Government ownership of the reform program is a requirement of successful adjustment. In Senegal, components of reform which contained strong Government sponsorship succeeded at least initially. In other areas wherein there was weak leadership, the reforms did not progress sufficiently. Moreover, in the presence of weak commitment to reforms, policy reversals could and did occur.

25. *Focus.* A well-focused reform program leads to better results. The financial sector reforms were well-focused, both in the objectives and in the instruments to be used. One of the reasons for the poor results of SAL IV was that the reforms were many, and they required attention from different fronts. Hence, adjustment programs should be kept well-focused on a few key objectives.

26. *Donor coordination.* In the case of SAL IV, there were conflicting signals from different donors. This gave the Government the opportunity to play for time and to set off the various donors against each other. In the case of the FSECAL, the donors were of one mind. This helped a lot in tightening the reform objectives and in promoting rapid adoption of the sector reforms.

27. *Internalizing economic reform processes.* The Bank can play a useful role in helping the Government internalize its ownership of policy reforms.. The adjustment program provided countless opportunities for discussions of the reform issues even after the abandonment of the SAL IV in 1992. With the wide technical resources available to the Bank, it can help Governments to explore all the different policy options that they face. By making available sound advice and international development experience, the Bank was able to assist the Government of Senegal review the various policy options.

28. *Upfront reforms.* Upfront reforms require lead time and therefore much initial preparation. They represent a better guarantee that reforms are implemented. For this reason, they should be favored over promised reforms. However, upfront measures can also be reversed by the Government.

SAL IV

29. *Serious external disequilibrium cannot be solved mainly by a program to reduce internal demand through fiscal compression. The catalytic force of exchange rate devaluation was needed.* Under the condition of excessive currency overvaluation, a stabilization policy based mainly on fiscal cuts in expenditure is likely to fail since the policy induces a decline in incomes and employment without producing the desired changes in relative prices. After the devaluation of the CFA franc, it proved easier to adopt some structural policy measures which could not taken by the Government earlier.

FSECAL

30. *Sequencing financial with other structural reforms.* Undertaking the financial sector reforms ahead of the improvement of macroeconomic conditions in Senegal made it possible for the banking system to be in better health by the time of devaluation. Because the workouts on the restructuring of the banks were undertaken well before devaluation took place, it was possible to have relative financial calm in the banking and financial sector during the devaluation. The banks were liquid at the time of devaluation, and they were able to respond more positively to the developments that benefited from devaluation.

31. *The Bank's positive role in regional reforms.* The Bank can play a significant role in supporting regional reforms affecting a group of countries. The FSECAL is a sound example of regional reforms being translated into a concrete sector reform within one country. This has, of course, been repeated in other countries.

1. Introduction and Background

1.1 After having been the administrative capital of the whole of French speaking Western Africa until 1959, Dakar became the capital of Senegal, a much smaller territory with much more limited resources. From its past, Dakar inherited a bureaucracy too large for its needs and an urban elite used to living standards above the rest of Africa. Senegal is a member of the Western African Monetary Union (UMOA) using the CFA franc as its currency. The CFA franc (CFAF) is linked to the French franc at a fixed parity which remained equal to CFAF 50 per FF for 40 years until the devaluation of January 12, 1994, when the new parity became CFAF 100 per FF.

1.2 In the euphoria of the 1973 commodity price boom, Senegal launched a highly expansionary fiscal and monetary policy with minimum wages rising 112 percent within three years. But the commodity boom was short-lived. With sharp falls in groundnut prices, droughts in 1978 and 1980, the financial collapse of the public agricultural development agency (ONCAD) and the increase in the external debt burden, Senegal had become virtually bankrupt by 1980.

1.3 Since 1980, Senegal has had an almost continuous series of adjustment programs supported by the World Bank, beginning with SAL I.[1] Disappointed by the poor performance in meeting the policy measures, the World Bank officially canceled the second tranche of SAL I on June 30,1983. In the spring of 1984, the Bank convened a Consultative Group Meeting on Senegal to design a new aid program for Senegal. The donors' response was favorable to this call, and the meeting was followed by the Board approval of SAL II and III in February 1986 and May 1987. Concurrently with the Bank, the IMF also supported Senegal with balance of payments assistance.

1.4 The results of SALs II and III were mixed. These SALs sought to improve the competitive position of the Senegalese economy by reforming industrial and trade policies. They provided stronger incentives to the private sector and reduced the level of protection. The economy became less regulated. The lowering of tariff and non-tariff barriers took place as foreseen in July 1986 and July 1988. According to the program, the negative effects on industrial profits were to be made up by a simultaneous reduction in factor costs (energy and labor in particular), but this did not happen. The appreciation of the CFA franc during the period exacerbated the loss of competitiveness of the economy.

1.5 Although the outcomes of SAL II and III were on balance satisfactory, the reforms were not sustained. Industrial growth continued to decline, especially in the face of competition from imports. Employment in the formal sector declined much more than foreseen, while the informal sector and fraudulent imports expanded more rapidly. In order to avoid a collapse of the formal industrial sector, the government raised tariffs in August 1989 and, by the end of 1989, the level of protection had virtually returned to its 1985 level.

1.6 The 1980s were a difficult period for Senegal, marked by high deficits in the fiscal and external accounts. The budget deficit (net of grants) was 4.6 percent of GDP in 1984/5,

1. The year 1980 also marked a political milestone. Senegal's first President had decided to retire, and he was succeeded by his Prime Minister, who, to this day has remained President, after three presidential terms.

fell briefly to around 3 percent of GDP during SAL II and III period, but rose to 4.5 percent of GDP by 1989/90. The external current account deficit was about 18 percent of GDP in the early 1980s and hovered at 10 percent of GDP in the latter half. There were swings in growth performance caused by relatively lax fiscal policy, shifting terms of trade, and changes in exchange rates of major trading partners. While the first part of the 1980s were marked by depreciation of the currency, after 1985, the terms of trade deteriorated and the French franc appreciated. Between 1985 to 1991, the real appreciation of the currency was estimated to be about 20 percent in foreign currency terms. Despite structural adjustment efforts, the real growth of GDP per capita had been negative. Brief periods of positive real growth were overcome by an overall picture of falling real incomes. The relatively low inflation rate until 1994 masked the sordid decline of the economy and the difficult efforts at adjustment. (See Figs. 1-4.)

1.7 The serious overvaluation of the CFA franc had major consequences for Senegal's economic strategy. By the time of SAL IV, it was apparent that devaluation was essential to restore growth and competitiveness. In addition, there were serious structural problems that needed to be solved to make any adjustment successful: the fiscal deficit (which was inherently linked to a high wage bill and to an inefficient, highly indebted public enterprise sector), the rigid labor market, and highly regulated industrial incentives framework. The main problem was whether the policies under SAL IV could be put in place without a devaluation taking place first. The Bank decided to proceed with SAL IV on the belief that the structural reforms were essential to growth in Senegal, even if a devaluation were to take place during the adjustment period.

1.8 It was also clear that Senegal's banking system was virtually and dangerously near complete collapse. A financial sector adjustment program was needed to restore the system to health. The FSECAL did not face the same problem as SAL IV. The restructuring of the banking system was not dependent on the devaluation. It was a precondition for a successful devaluation and, therefore, not a controversial issue.

Figure 1

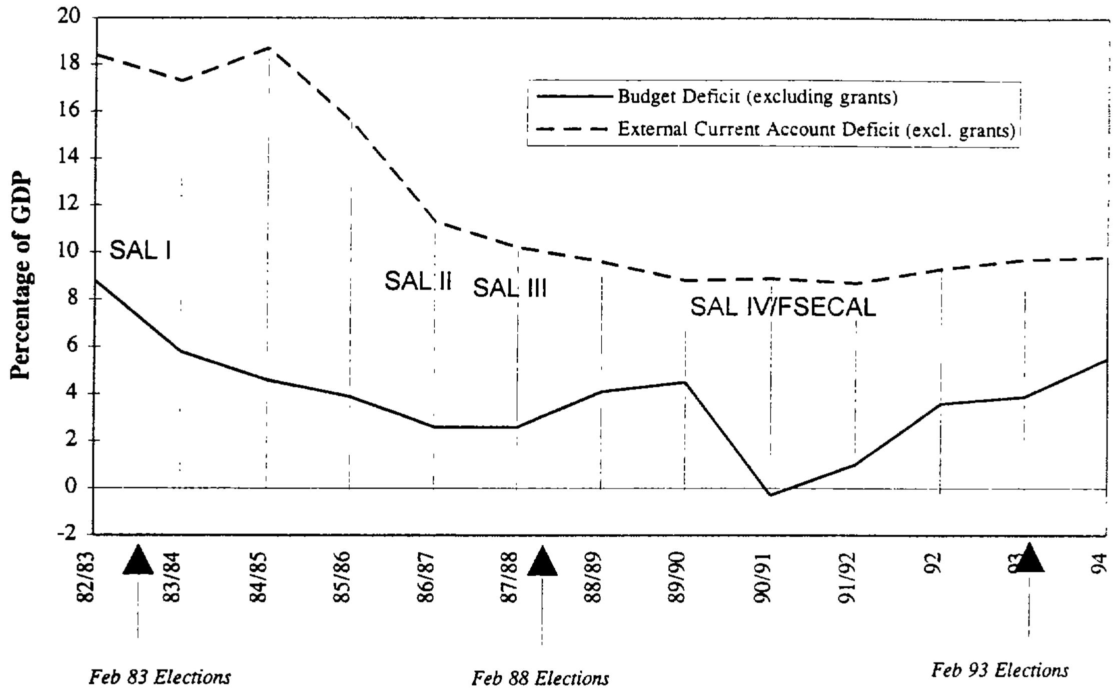


Figure 2

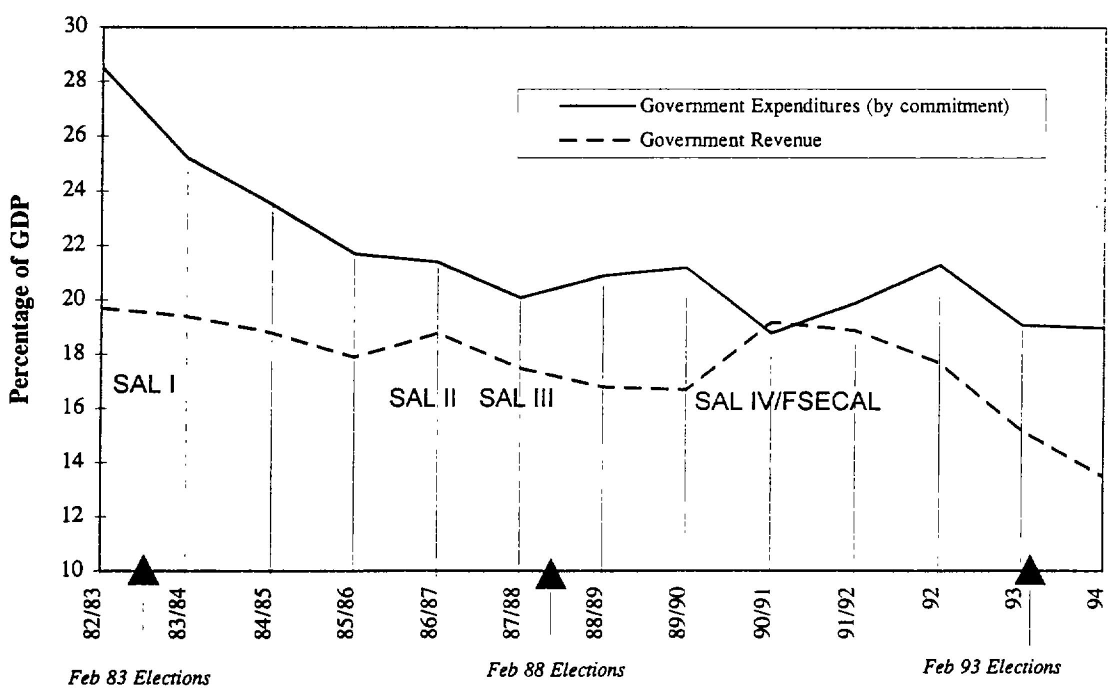


Figure 3

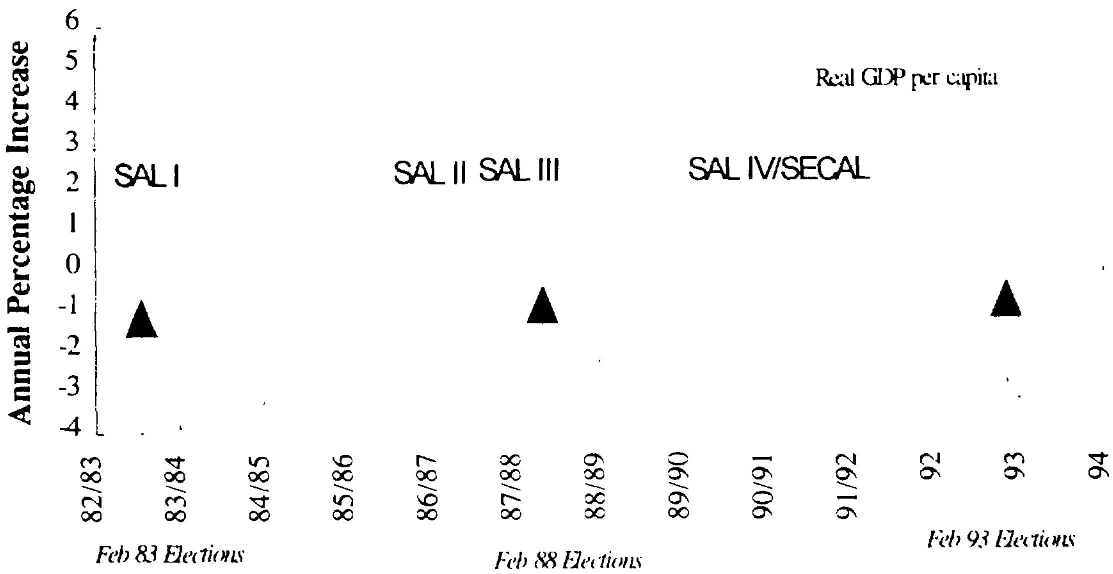
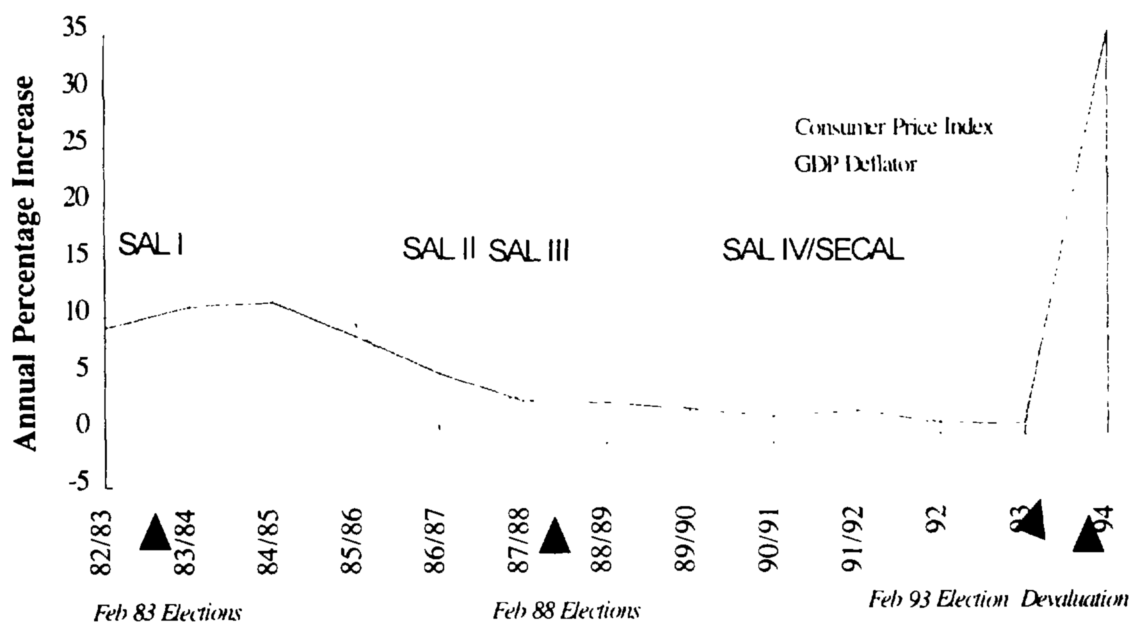


Figure 4



2. SAL IV: Objectives and Results

2.1 SAL IV, in the amount of SDR 62.4 million (US$80 million), was approved on February 8, 1990 and became effective on February 22, 1990. The first two tranches of SDR 25 million and SDR 18.7 million were disbursed in full. The third tranche was canceled. Three supplemental credits totalling SDR 12.1 million from the IDA Fifth Dimension were disbursed in addition to the first two tranches.

2.2 SAL IV addressed stabilization and structural issues that hampered competitiveness of Senegal's economy. The macroeconomic strategy aimed at reducing the current account deficit by lowering overall demand through public expenditure reduction and improvement of export activity in the private sector. This was the strategy followed under the Policy Framework Papers worked out with the Government and the IMF. The structural reforms focused on four objectives, namely, to: (i) improve production incentives by reducing the tax burden of the corporate sector, containing the costs of production, and removing labor market rigidities; (ii) rationalize public current expenditure by downsizing the civil service and increasing its productivity; (iii) undertake reforms in the public enterprise sector by cutting all subsidies to them, eliminating cross-debts between enterprises, and pursuing an aggressive privatization program; and (iv) minimize the transitional costs for certain groups in society, in particular civil servants, who lost their jobs during the adjustment program.

2.3 The design of SAL IV benefited from past adjustment programs with Senegal. Under those programs, several studies were undertaken which recommended actions on sectoral and strategic issues. The studies were used in mapping out the program of work identified under SAL IV. As a result, more than half of the core actions in the program were undertaken by the Government before Board approval. Although the structural reforms were confined to four broad objectives, the specific actions required to fulfill each objective were detailed, as will be shown below.

2.4 Since many of the specific measures related to these objectives were taken by the Government prior to approval of the loan, only a few remaining measures were required to help deepen the reforms in particular sectors. These measures were to be taken in later tranches; but the third and final tranche was canceled. Earlier experience with adjustment in Senegal has shown that major policy measures were better taken up front in order to achieve greater depth in the Government's reforms.

Improving Production Incentives in the Private Sector

2.5 To improve production incentives, especially for the private sector, the following measures were identified: reduce the tax burden on companies; hold down costs of nonlabor domestic inputs; improve investment incentives and the regulatory environment; and introduce labor market flexibility to reduce labor costs.

2.6 *Reduced tax burden.* A new system of direct taxation was adopted before effectiveness. The income tax was made structurally simpler with lower and fewer rates. In the case of the company tax, a single marginal tax rate of 35 percent was adopted. The personal income tax was made simpler involving fewer marginal rates, with the highest marginal tax rate being set at 50 percent. At the same time, measures were introduced to help in the administration of indirect taxes, especially the administration of the value added tax and of customs.

2.7 The improvement of tax administration has been a problem of long standing in Senegal. Reforms in tax and customs administration were taken, including efforts to introduce computerization in customs operations. Measures undertaken along these lines required more time to yield positive results. In view of economic decline during the period of the SAL IV, the benefits anticipated from these reforms in taxation were not made evident. In fact, tax collection did not improve.

2.8 *Containing input costs.* The high cost of non-labor inputs, especially energy products and telecommunications, contributed to the high internal costs of production. In view of exchange rate overvaluation, domestic prices of petroleum products were about twice as high in Senegal than in neighboring non-CFA African countries. A system of pricing of petroleum products was agreed upon as a result of studies made on the sector under the earlier SALs. The pricing formula would reflect a new system of transparent pricing and taxation of petroleum products, in which the price of petroleum ex-refinery would be set at import parity and adjusted on a quarterly basis. The refinery company would be paid a handling fee negotiated by the two parties. This pricing formula was used in complying with the second tranche release, but it was not used again on a regular basis as required. Moreover, the Government undertook reductions in prices in diesel and fuel prices for all consumers instead of more significant reductions of prices to industrial users, which was the substance of the conditionality. The Government also reduced telecommunications charges in 1990. These changes in input prices were unable to reduce the cost on nonlabor inputs to industry. Compliance with the pricing formula for these products was not adequate; moreover, the changes contemplated were not sustained.

2.9 *Incentives and regulatory environment.* Administrative and regulatory reforms were needed to help stimulate investment. Most of the actions recommended from studies on taxation,. regulations and government administrative regulations were adopted as part of upfront measures under SAL IV. This led to measures affecting taxation and the easing and simplifications of regulations dealing with the business sector. Among these were the improvement of the duty drawback system for exports and export subsidies for enterprises operating in the export processing zone. Although these measures were approved, their overall performance was unsatisfactory. The performance of exports was very poor, largely as a result of the currency overvaluation and the impediments of regulations. With respect to monopolistic privileges granted specific industries *(conventions speciales)*, the Government allowed them to expire, without renewal.

2.10 *Labor Code Reform.* Provisions in the Labor Code rendered the terms of hiring and firing extremely rigid. Under SAL III, hiring practices for labor were liberalized to abolish the requirement that all recruitment of new hires be made by the Government. Aside from currency overvaluation, the core issue in labor market reforms was the high level of real wages set by law. Formal sector wage negotiation had become a highly institutionalized ritual of collective bargaining of wage agreements in 27 separate industry groups, which have led into a complex structure of minimum wages for different occupational categories and a floor price for all industry level negotiations. The reference price is the minimum wage (SMIG) set by a tripartite negotiation between employers, unions, and the Government. The Government's Letter of Development Policy indicated that this process would be reviewed, and remedies would be made in the Labor Code before the release of the second tranche.

2.11 As upfront measures under SAL IV to improve labor market flexibility, the Government enacted in 1989 a decree that allowed enterprises to have unlimited use of temporary contract labor. With respect to investment promotion, small and medium enterprises (those with investments with CFAF 5 to 200 million (or US$15,000 to 650,000)) would be exempted from seeking prior government authorization for dismissal of employees. These provisions were extended to enterprises operating in the export zone to help the growth of export production.

2.12 ILO was asked by the Government to provide technical assistance for this undertaking. The recommendations of the expert were publicly debated, but the Government failed to act in the face of strong opposition by the labor unions. This was made more politically difficult by the forthcoming presidential elections in 1993. The Government made a gesture of fulfilling the requirement of submitting the proposed amendments to the National Assembly, but the proposed legislation was not submitted to a vote. In turn, the Bank agreed to move approval of the Labor Code amendments prior to the release of the third tranche. The Government sought more time in order to build political consensus.

2.13 The issue of labor market flexibility was not solved by SAL IV. The difficulty of proceeding with the Labor Code amendments was one reason for the cancellation of the third tranche of SAL IV.

Civil Service Reform

2.14 SAL IV was designed to help in the civil service reform from three fronts: (i) reduction in the number of civil servants through a program of administrative restructuring and voluntary departures; (ii) management of the wage bill within a defined ceiling; and (iii) further institutional reforms to increase civil service efficiency.

2.15 The civil service represented an undue fiscal burden. The wage bill in Senegal consumes over one half of the Government's operating expenditure and 46 percent of total revenue. This ratio is way above that found in other countries. In Tunisia and Malaysia, the wage bill is about 30 percent of tax revenues. A retrenchment in the size of the civil service would become an immediate fiscal gain through a reduction of the total wage bill.

2.16 However, the need for civil service reform went beyond the fiscal impact. Civil service wage rates had an influence on labor costs, since they were used often as a reference point for wage setting in the modern sector. The reduction of the wage bill, for instance, would reduce the need to raise a heavy tax on energy consumption.[2]

2.17 Early efforts to reform the civil service ended in failure. The program, adopted in 1976 to reorganize central ministries, targeted downsizing of staff, reduction of wage costs, and improvement in efficiency. This attempt at downsizing was abandoned in view of resistance from the ministries. In the face of a mounting wage bill, SALs II and III suggested ceilings on civil service employment, holding the line on salary levels, and improving management of the civil service.

2.18 Under SAL II, the Government froze the number of civil servants to the level of July 1985, which was just over 70,000. Under SAL III, the target level of civil servants was set to the June 1987 level of 68,000 employees. The wage bill in real terms remained roughly unchanged during SALs II and III. However , the measures fell short of these targets so that there was no improvement in the allocation of fiscal expenditure resources.

2.19 Under SAL IV, the net reduction in the number of civil servants was targeted at 4,806 employees, or 7 percent of the number of civil servants as of June 1989. The annual wage bill would be reduced to CFAF 126.8 billion for 1989/90 (from the original wage bill for the same period of CFAF 131.6 billion) and 125 billion for 1990/91 and 1991/92. The ratio of civil servants per 1000 people would be reduced from 9 to 7.7, by June 1992. The targeted outcome was comparable to the ratio found in other African countries with better resource endowments than Senegal. The savings from the system was designed to finance incentives for good performance and increase in overall civil service efficiency.

2.20 The program of voluntary departure required about US$69 million in severance payments, and the Government, assisted by the Bank, was able to mobilize donor support to finance the program. The financing of the civil service departure program was almost totally dependent on foreign financing. Aside from using the Government's counterpart funds to SAL financing, other donors supporting this program were France (US$15.8 million) and the African Development Bank (US$2.4 million). Based on staff calculations, economies resulting from the reduction in the wage bill would offset the full compensation costs within five years from the date of implementation of the program.[3]

2.21 The results of the civil service reform were very disappointing. After making some initial gains with the departure of 3,745 employees from the civil service by the end of 1991, the Government reversed itself and undertook new recruitments. By June 1992, the number

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2. The Staff made calculations that in the absence of substantial cuts in the wage bill and other reforms within the labor market — and implicitly, without a real devaluation of the CFA franc — it would take at least another 10 years for Senegal to achieve competitiveness.

3. This was undertaken by calculating the incremental savings on the wage bill per year and cumulating this over a three year period. The upfront costs of the first year voluntary departure program was US$42.3, then US$19.6 million in 1990/91, and US$7.7 million in 1991/92, hence totalling US$69.3 million. The incremental savings from the reduction per year was calculated to be US$3.4 million, US$1.8 million the next year. However, the cumulative savings resulting from the reduction of the wage bill was calculated to build up to US$36.2 million by the third year of the program of voluntary departure.

of civil servants rose again to 64,000 as against the target of 61,743. The civil service size had become larger than when the downsizing program had begun.

2.22 Even before the second tranche release, new recruitment into the civil service had exceeded the agreed target for 1990/91 by a wide margin: 1,964 as opposed to the target of 600. The Government did not terminate the practice of automatically recruiting graduates from national training schools into the civil service and excessive recruitment to the military, as agreed in SAL IV. Towards the end of 1990/91, the number of voluntary departures was 1,715 employees. This meant that recruitment was higher than the departure from the civil service roster. This event was already clear at the time of the review for the release of the second tranche. The wage bill had risen to CFAF 129.5 billion instead of the agreed ceiling of CFAF 125 billion. Another consequence of this net increase in employees was that budgetary resources targeted for the payment of voluntary departures were used instead to finance new wage obligations. The Bank took a liberal view of this slippage in performance, by acknowledging this fact and then, in determining compliance, choosing to use the base period for June 1990 (the original date of planned release for the second tranche). At that earlier period, the ratio of recruitments to departure, at 14 percent, was favorable and within the targets set by the conditionality. The relevant criterion, however, was the actual time of tranche release by which time the civil service reform had already gone off track.[4]

2.23 Contrary to early expectations that there would be few takers, the program of civil service voluntary departure generated quite a large demand.[5] The voluntary departure program affected a total of 3,747 employees, representing about 90 percent of the total number of applicants to the original program. It cost a total of CFAF 15.7 billion. The average cost per departee was about CFAF 4.2 million, representing about 3.2 years of salary. Most of the departures were from the ranks of the lower levels of service, the two lowest classes of services accounting for 46 percent of the total number of departees.

2.24 With respect to the size of the wage bill, the initial targets were achieved for 1989/90 with the initiation of the voluntary departure program and the reduction of the Government's contribution to the retirement fund. But the wage bill went up to CFAF 7 billion above the agreed ceiling for the fiscal years 1990/91 and 1991/92, respectively.

2.25 The institutional reforms in the civil service were only either partially or temporarily achieved. Although the number of ministries were reduced from 26 to 15 in 1989, there were again 27 ministries by 1993. Tax administration was strengthened in the Tax and Customs Departments. The domestic tax administration was improved, in particular to effect an expansion of coverage of the VAT and the reduction of underinvoicing of imports through the introduction of minimum import duties. With respect to customs, administrative measures included improvement of the import valuation section and the computerization of import clearance procedures.

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4. See Second Tranche Release Memorandum of the President, dated December 20, 1991.

5. In the event of a low demand for the voluntary departure program, a fallback position was devised by the Bank, which was adopted in the minutes of negotiations: under no circumstances would the wage bill exceed CFAF 127 billion in 1989/90 and 125 billion in subsequent years. The latter ceiling was also provided in the legal agreements.

Public Enterprise Reforms

2.26 The public enterprise sector accounts for about 29 percent of total investment, 17 percent of employment and contribute about 7 percent of GDP. During the period from 1982 to 1987, the Government's equity in the sector doubled, accounting for CFAF 218 billion, or 71 percent of total public enterprise equity. Their economic performance had been very poor over time, so that public enterprises had become a net budgetary burden. Budgetary transfers supporting operating subsidies accounted for about 6 percent of total revenues or 75 percent of the fiscal deficit in 1987. This burden excluded other subsidies (such as loans from the Treasury and debt servicing). In addition, public enterprises had traditionally been recipients of various protections, preferential credits and other forms of subsidies including price controls. In addition, a mountain of cross-debts had grown which, in the end, further threatened fiscal stability.

2.27 Support for public enterprise reform from the Bank commenced as early as 1985. SALs II and III supported these reforms. These reforms were designed to improve management and auditing, including the establishment of a monitoring and information system within the public sector. The reforms also included a program for the elimination of cross-debts among public enterprises. Privatization and liquidation were included within a limited agenda. Only three of ten enterprises planned for privatization were actually sold.

2.28 SAL IV focused on three major problems: (i) elimination of budgetary subsidies to commercial public enterprises and the reduction of indirect subsidies to non-commercial public enterprises; (ii) elimination of cross-debts among the public enterprises; and (iii) privatization.

2.29 The Government reduced direct subsidies and eliminated overdraft facilities for public enterprises. Between 1990 and 1991, the cross-debts of public enterprises and the Government were settled. The debts of non-financial public enterprises to the Government were reduced from CFAF 57.4 billion to CFAF 5.6 billion and debts owed by the Government to the public enterprises from CFAF 48.9 billion to CFAF 1.2 billion. The Government took a consolidated approach to the settlement of cross-debts rather than the original approach of year to year settlements specified in the Letter of Development Policy. This was a superior and more speedy process. As a result, most of the cross-debts were wiped out through a system of mutual cancellation of debts and write-offs.[6] Despite achievements on this issue, cross-debts have apparently built up again, based on the operations of two major public utilities—the electric and water companies.

2.30 With respect to privatization, the Government was able to successfully sell ten out of a planned thirty enterprises. Unlike the early efforts, some viable commercial companies were included in the privatization program. Intermediate methods of privatization were

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6. The remaining cross-debts were settled on the basis of the year to year approach as originally planned. By the time of the second tranche release, 60 percent of the total cross-debts were settled by this last method. The remaining 40 percent of the cross-debts were to be settled within the next three years.

tried, including the privatization of management and lease purchase arrangements. The management of five enterprises were privatized and three cases of lease arrangements were converted to lease-purchases. Moreover, five other enterprises not originally within the program were also sold. Factors which helped the conclusion of privatization transactions were due to an effort to sell viable companies, the reduction of budgetary subsidies, and the transparent procedures adopted in the sale. The Government, however, made some demands which discouraged a more rapid privatization. It required excessively high prices and demanded that no reduction of employment be made even after privatization. As a result, the momentum of privatization was lost, and the larger public enterprises being planned for sale, especially the case of SONACOS, did not materialize.

2.31 The public enterprise reforms were achieved partially. The lack of momentum for privatization caused the same problems to build up again. Reform of large public enterprises operating under performance contracts continue to have poor financial performance. Part of the problem had been the failure of the Government to honor its obligations under the performance contracts.

2.32 In spite of these efforts, the public enterprise sector continues to remain a problem for the state. Their financial operations continue to be poor. The slowdown of reforms within the public enterprise sector and the slowdown of privatization are signs that further reforms addressing this sector would be needed.

Other Components

2.33 *Social dimensions of adjustment.* Measures were included in SAL IV which were designed to reduce the hardships imposed by adjustment. A household survey was undertaken and used by the Government and other donors in targeting assistance to vulnerable groups. A Bank-funded project (AGETIP) was set up for the rehabilitation of urban infrastructure which created jobs through small subcontracts to small private firms. This program was able to generate new jobs in construction and it helped to alleviate urban unemployment. SAL IV also was designed so that public resources were committed to the health and education sector, despite the cutbacks in personnel and programs. Cutbacks in the civil service protected these sectors.

2.34 *Disbursements.* SAL IV was disbursed only up to the second tranche, as the third tranche (equivalent to US$24 million) was canceled. Procurement was followed according to procedure. And appropriate auditing accounts were made, despite some delays. The three supplementary credits to SAL IV made available to Senegal brought the total disbursements under SAL IV amount to US$76 million up to the second tranche, or close to the original assistance of US$80 million.

2.35 *Monitoring and supervision.* Initially, a Government interministerial committee was designed for coordination and execution of the program. Program monitoring was affected by reorganization of the Ministry of Finance and the dissolution of the action committee for the adjustment by the Government after 1991. Within the Bank, up to 100 staffweeks were used for SAL IV, of which two-thirds were devoted mainly to efforts related towards assuring that the upfront measures of the Government were adopted.

2.36 *Compliance with covenants.* Tranche release requirements were substantially complied with prior to the release of the second tranche. A waiver of the requirement to implement labor code changes was made in order to release the second tranche. These code changes were supposed to have been implemented prior to the third and final tranche release. But the program went off track almost immediately after the second tranche release. The third tranche was canceled. Many of the reforms under SAL IV suffered reversals, as already discussed.

Conclusions

2.37 The performance of SAL IV was disappointing, despite some early successes. The design of the loan had much to do with the result. First, its objective of restoring external equilibrium was based on a program of demand compression despite the serious currency overvaluation. The strategy required very severe cuts in public expenditure that had to be sustained over a long time period. It also implied a positive supply response to improvements in regulations and incentives at a time of declining domestic demand. A sufficient nominal devaluation of the exchange rate taken upfront or simultaneously would have assured that relative prices would adjust immediately. Combined with fiscal austerity, this measure would have cut imports and encouraged exports , thereby correcting the competitiveness problem (as subsequent events would show, when devaluation was finally taken). The Bank proceeded with SAL IV on the assumption that the structural reforms would be needed for the adjustment to succeed. It was also premised on the possibility that some consensus on the devaluation issue would be forthcoming in the future. But, like the reforms of the UMOA on financial and credit policies, a devaluation required a concerted action, with France as a major participant. Agreement on this issue took time, since there was no consensus among the member countries and donors.

2.38 Second, given that the structural reforms were needed for full adjustment, the issue was whether these reforms could be implemented and sustained under the stabilization strategy. To assure the implementation of the key reforms, SAL IV required that a substantial part of these reforms be made by the Government before loan approval. These reforms covered many areas: improvement of the tax system and its administration; a program of civil service reform; revision of private production incentives; reform of labor and wage regulations; and major advances in public enterprise reforms, including privatization . The major reform of the legal framework for the labor market was reserved to the second tranche, together with specific measures to reduce domestic costs, such as pricing changes in energy and telecommunications.

2.39 The structural reforms were unable to produce the desired benefits. Under a declining economy, the tax and revenue reforms did not yield the expected increase of revenues. Changes in incentives failed to improve employment, income, and output. The supply response assumptions were optimistic. The reduction of the cost of domestic inputs—energy and telecommunications—did not make much headway in containing domestic nonlabor costs. Important labor code changes were not implemented. Although cross-debts in public enterprises had been reduced considerably in advance, they again reappeared. Although the civil service reform of enforced a program of voluntary departures, the Government relaxed on recruitments and ended up hiring more new employees than departees from the service. Moreover, the Government reverted back to lack of fiscal discipline and ignored the expenditure compression that was required under the adjustment program. The result was that there were more civil service employees, and a larger wage bill, by the time of loan closing . These serious policy reversals (commencing with the expansion of fiscal expenditure during the electoral period of 1992-3) occurred which put the structural reforms off track. Institutional measures sought under SAL IV (such as those linked with tax and administrative reforms, labor market regulations, privatization and public enterprise reforms) were undertaken, but due to the same reversals of policies of the key policies, the objectives were only modestly achieved, if at all.

2.40 The presidential elections of February 1993 affected the implementation of the difficult structural adjustment measures. The Government's commitment to reform weakened considerably during this period. The second tranche of SAL IV was released in 1992, waiving the adoption of the labor code changes to the third tranche release conditions. But by this period, the program had gone off-track in a major way. The Bank decided to cancel the third tranche in 1993, and the credit was closed.

3. The FSECAL: Objectives and Results

3.1 The FSECAL was approved by the Board of Executive Directors on December 18, 1989 in the amount of SDR 35.3 million, with cofinancing from France (US34 million) and the United States (US$33 million). The first tranche representing 60 percent of the credit was made available on December 21, 1989. The second tranche was released nine months later. It was fully disbursed.

3.2 The FSECAL was designed to help Senegal in implementing the changes in monetary policies along the lines of the reforms adopted by the West African Monetary Union (UMOA) Council of Ministers in August 1989. The key decisions on credit, banking and monetary policies were therefore taken by the Monetary Union. The specific objective to Senegal was to avoid a collapse of the banking system. It was widely believed that such a collapse was in the offing by the end of 1990 if nothing was done.

The UMOA Banking Crisis

3.3 The economic decline in the CFA area during the 1980s had as one of its consequences a severe crisis in the financial sector. The seriousness of the financial crisis facing the West African Monetary Union (Union Monetaire Ouest Africaine, UMOA) was brought to the attention of the Heads of State of the member countries by a high level French delegation which visited West Africa during the summer of 1987. Everyone of the seven members was affected by the crisis and every development bank had become bankrupt de facto, if not de jure. Benin was the most severely affected country because it had nationalized its entire banking system.

3.4 For the UMOA, however, the most critical case was Senegal which accounted for one fifth of the combined GDP of the union and over one fourth of its bad loans. As of end-September 1988, the value of non-performing Senegalese loans was half the value of total loans; it was equivalent to 3.7 times the sum of capital and reserves held by the Senegalese banking system which was therefore technically bankrupt.

3.5 Senegal's banking crisis was a threat for the UMOA. The free convertibility at fixed parity between CFA and French francs was ensured through the joint operations account between the BCEAO and the French Treasury, an account lodged in the Banque de France. Although no formal ceiling was set for the operations account deficit, the size of the deficit was limited by various constraints on credit expansion.

3.6 Reform of the financial system in any member country of the UMOA, such as Senegal, could not be undertaken without first curing the root cause of the problems, which required reforms at the regional level. The reforms at the regional level had to be implemented first. When approached for assistance to help in the financial sector restructuring of member countries of the CFA Franc zone, the World Bank stressed that bringing in fresh money into the banking system made sense only if the policies were amended so that the same problems would not occur again.. As a result, the Bank completed by mid June 1988 a reform program which went through thorough negotiations among donors and regional agencies. A consensus was reached by the Council of Ministers of UMOA by all the parties in August 1989, four months before the FSECAL was presented to the Board.

3.7 For each country, the two major constraints were the overall credit ceiling and the subceiling on credit to government. The overall credit ceiling was set each year as a function of the expected growth in real GDP and the maximum permissible inflation rate. The subceiling was defined in article 16 of the UMOA statutes which stipulated that the net advance of the BCEAO to a government could not exceed 20 percent of the government tax receipts in the latest year for which audited fiscal data were available.

3.8 In view of the financial difficulties encountered by the various governments during the eighties, the pressure for by-passing the established limits was considerable and various loopholes were found. The three major features of the 1989 reforms of the UMOA were to close the major loopholes, to strengthen bank supervision and to liberalize the mechanism of credit allocation.

3.9 *Closing Loopholes.* Crop credits had become a major loophole for two reasons. First, crop credits benefitted from a preferential interest rate, which induced operators to use these credits for other purposes. Second, crop credits did not fall under the overall credit ceiling because they were supposed to be self-liquidating, but which were not. For most export crops, prices to domestic producers were guaranteed by the government and were set at levels based on projected export prices. Whenever actual export prices fell below projected ones, the campaign ended with a deficit which was always very difficult to cover. The budget did not contain any contingency provision to meet this, and the Treasury was generally unable to borrow from the central bank because the government had already reached the statutory limit on net advances from the BCEAO. The year frequently ended with unfinanced deficits ("queue de credit") which could be fairly large. In 1987/88, these deficits were of the order of US$ 60 million for Senegal and US$ 300 million for Côte d'Ivoire.

3.10 Another loophole consisted in asking (or instructing) a bank to extend a government guaranteed loan to a public enterprise in difficulties, instead of extending a straight subsidy to that enterprise. If the enterprise was unable to service its loan, the bank presented the loan to the BCEAO which was refinancing it automatically because of the government guarantee. This refinancing was not considered to be an advance of the BCEAO to the government and, consequently, did not fall under the 20 percent statutory limit while a straight government subsidy would have fallen under this limit.

3.11 These two loopholes were, to a large extent, closed with the 1989 UMOA reforms, notably by including crop credits under the overall ceiling, including new BCEAO refinancing of government guaranteed loan under the 20 percent statutory limit and eliminating all preferential borrowing rates.

3.12 *Strengthening Bank Supervision.* Bank supervision was supposed to be shared between the governments and the BCEAO, but the respective responsibilities of the two parties were loosely defined. As a result, supervision was ineffective, which explains why the banking system had deteriorated to such an extent. With the 1989 reform, the BCEAO became responsible for defining accounting standards and prudential ratios. A "Commission Bancaire" with two representatives from each member country and from France was established in Abidjan with considerable powers. Regular external audits have been conducted in all member countries, and, so far, the results have been satisfactory.[7]

3.13 *Liberalizing Credit Allocation.* Credit was administratively allocated. In order to facilitate the respect of the overall credit ceilings allocated to each country, national BCEAO offices often set quarterly credit ceilings bank by bank. This did not induce a competitive environment where banks actively searched for deposits. Moreover, banks were asked to fulfill sectoral credit targets, which proved ineffective. Banks were also required to request prior authorization from the BCEAO before extending credit in excess of CFAF 70 million (equivalent to US$ 0.23 million), which was cumbersome. With the deepening of the financial crisis, administrative credit allocation became tighter since most of the credit available was used to keep the distressed banks afloat, at the risk of undermining the position of those still healthy.

3.14 With the 1989 UMOA reforms, sectoral allocation of credit was abolished and the prior authorization mechanism was liberalized. The banks which did not satisfy the prudential ratios set by the "Commission Bancaire" were running the risk of losing their license. The bank by bank credit ceilings were to be progressively replaced by market oriented mechanisms. The "normal" and the "preferential" interest rates were replaced by a

7. As acknowledged in Annex C, some changes in paras. 3.12 and 3.19, below, were made here in response to comments made by the BCEAO.

new single money market rate. But the new rate was not market determined; it was fixed by the BCEAO in relation to the Paris money market rate.

3.15 It could appear that the reform did not go far enough in the liberalization of interest rates. But a meaningful structure of market determined interest rates could not have been established when every operator was expecting a major currency devaluation which was kept as a state secret. Free market rates could have fluctuated widely with rumors of an imminent devaluation, which were frequently spread during the four years which preceded the actual devaluation.

Restructuring Senegal's Banking System

3.16 The restructuring of the banking sector in Senegal, which led to the closure of half of the existing banks, was based on two principles. First, no bank should be allowed to survive unless it could become profitable, solvent and liquid after the restructuring, recognizing that sizable staff reductions could be required. Second, the banks surviving should be able to allocate credit on the basis of economic criteria and not according to political considerations and, for this purpose, the government share should not exceed 25 percent in any bank. The Senegal FSECAL was the forerunner of other financial sector operations designed to restore soundness of the banking system in other UMOA countries.

3.17 In the two years preceding the presentation of the FSECAL to the Board, a series of audits had been conducted to assess the net liability of each distressed bank, defined as the excess of nonperforming loans over the bank's capital, reserves and provisions. The nonperforming loans were then removed from the bank portfolios and merged into a single liquidating company called the "Societe Nationale de Recouvrement" (SNR).

3.18 For two of the eight distressed banks (USB and BIAOS), the healthy part of the portfolio was sufficient to form the basis of two new banks (Credit Lyonnais Senegal and CBAO). For five other banks (BNDS, SOFISEDIT, SONOGA, SONABANK AND ASSURBANK), the healthy parts of the portfolio were too small to provide a useful basis for a new bank. These five banks were therefore closed and their sound assets, together with an equivalent amount of deposits, were distributed among the banks remaining operational.

3.19 The national agricultural credit bank "Caisse Nationale de Credit Agricole du Senegal" (CNCAS) was the last of the eight distressed banks. The CNCAS was not privatized because no taker was found to buy the government shares which are still in excess of 25 percent. On the basis of the two principles quoted above, the CNCAS should have been closed. But it was not because it was believed that its closure would have deprived the rural population from essential financial services. The CNCAS was still operational in 1995 but it has serious problems.

3.20 The housing bank "Banque de l'Habitat du Senegal" (BHS) was not among the distressed banks. It is partly financed from savings accounts remunerated at 4 percent and makes 15 year housing loans at 9 percent and 11 percent. Its management remains influenced by political considerations and problems are likely to arise unless important changes are made.

3.21 The owners of two privately owned banks (BSK and MASSRAF with interests from Kuwait and Saudi Arabia) were asked to recapitalize their banks (so as to satisfy the prudential ratios) if they wanted to keep their licenses. Ultimately, these two banks were closed. The owners of the Islamic bank (BIS) were also asked to recapitalize their bank; they had promised to do it by March 1993 but have not yet done so. The bank has lost its license, but is not yet formally closed.

3.22 *The five main banks.* There are now five banks which fully satisfy the two above mentioned criteria (para. 2.13). The BICIS and SGBS are large commercial banks which were not restructured because they managed to remain healthy with an increase in the capital subscription of their French parent banks (BNP and SG). The BICIS and SGBS have a wider deposit basis and more agencies outside Dakar than the two other main banks (CLS and CBAO) and they are also probably somewhat less profitable.

3.23 The "Credit Lyonnais du Senegal" (CLS) has also a major French bank (CL) as its main share holder. It is a downsized version of the former USB which got rid of heavy surplus luggage through the restructuring. These three banks (BICIS, SGBS and CLS) are healthy. They follow a conservative strategy and all major decisions are made in the Paris headquarters.

3.24 The fourth bank, CBAO, was created by restructuring the BIAOS which had a presence in all French speaking West African countries. Sixty percent of the shares are owned by MIMRAN, a large French industrial group with important interests in Senegal. It is the most innovative of the four large banks and the one expanding most rapidly. It has recently acquired two corporations, one dealing with risk capital and the other with credit leasing.

3.25 The fifth bank, CITIBANK, has only some 600 accounts. It is essentially financing import export business. It is the most innovative and the most profitable of the five banks. This can be illustrated by two recent credits: one to SONACOS, the Senegalese oil mill processing groundnut into oil for exports, and the other to SENELEC which is the electricity company.

3.26 Export of groundnut oil became a profitable operation with the devaluation of the CFA franc. CITIBANK took advantage of this new situation to construct a scheme providing SONACOS with a CFAF 40 billion crop credit consisting of two tranches. The first tranche was financed on the local market by offering securities with partial CITIBANK guarantee. The original CFAF 20 billion offering was quickly oversubscribed and the guarantee averaged 40 percent. The second tranche was a US$ 40 million syndicated loan on the Euromarket at libor plus one and half point. With the rates prevailing early February 1995, it was equivalent to 8.25 percent a year which was much lower than the 11.5 percent rate offered by the CNCAS for a CFAF 10 billion crop credit. It is worth noting that this was the first Euromarket syndicated loan to a CFA country since the outbreak of the debt crisis. In this respect, Senegal has gone a long way since the FSECAL was submitted to the Board.

3.27 The CFAF 5 billion three-year loan to SENELEC was fully subscribed in the local market and it had two interesting features. First, the subscriber was able to use its credit to pay its electricity bills. Second, the last payment could be indexed on the CFAF at 11 percent a year or on the FF at 8 percent. This last feature was considered in some quarters as the wrong signal to give shortly after the devaluation, but it showed how the currency risk was perceived by the market.

3.28 *Mutual credit*. The formal banking system was not fitted to extend small loans to peasants or small enterprises of the informal sector and the experience of development banks ended in financial disasters all over the UMOA. By contrast, a number of mutual credit schemes have had excellent repayment records. The promotion of grass-roots credit institutions based on mutualist banking activities was a technical assistance component of the FSECAL financed by Canada (CIDA). The studies and the field experiments were successfully completed, and the mutualist networks have been expanding at a reasonable pace.

3.29 *Conclusions*. The five main banks satisfied the two established criteria: (i) being solvent, liquid and profitable; (ii) having no more than 25 percent shares owned by the government. But the CNCAS did not. Rather than pretending that the conditions had been met, it would have seemed preferable to ask a waiver for CNCAS, which would have highlighted the fact that the CNCAS problem remained to be solved. The waiver could have been granted without difficulties since it was clear that a crisis of the banking sector would be avoided, which was the major objective.

3.30 It can be argued that the deepening of the intermediation system and the liberalization did not go far enough, that the banks became too conservative and did not respond to the development needs of the Senegalese economy. But this argument should not been pushed too far since the investment climate was very unfavorable in the last few years preceding the devaluation. The innovative measures taken by CBAO and CITIBANK are hopeful signs which should not be viewed with suspicion but, instead, encouraged by the monetary authorities. Financing crop credits with an Euroloan is a step forward in relation to the former practice of having to draft local banks into crop credit operations.

Financial Workout

3.31. The health of the banking system had to be restored without losing the confidence of the public and, for this purpose, it was necessary to compensate those with deposits in the banks which had to be closed. The total cost of the restructuring operation was of the order of one quarter of one trillion CFAF or US$ 830 millions, which was equivalent to the yearly government revenue or 17% of GDP. Most of the cost had to be born by the state, but the Senegalese government had no money at its disposal. It was, therefore, necessary to find a borrowing scheme resulting in a debt service which would be bearable by the Treasury over time.

3.32. As presented in the President's Report of the FSECAL in a highly simplified way, the problem was to get rid of the non-performing assets by finding CFAF 196 billion which were to come from three sources: (i) a CFAF 126 billion rescheduling of the debt due by the distressed banks to the BCEAO over 15 year at 3% interest rate with a 3 year grace period; (ii) CFAF 38 billion from IDA, France and the US (FSECAL with parallel financing), and; (iii) the CFAF 32 billion expected to be recovered from the non performing assets. The financial workout arising from this exercise, both from the standpoint of issues arising from Senegal's treasury and the BCEAO, is explained in Annex B.

3.33. By the end of 1994, the amount rescheduled by the BCEAO was CFAF 144 billion instead of CFAF 126 billion. The CFAF 38 billion of external assistance programmed had fully disbursed and the amount recovered had reached the CFAF 32 billion target. However, all government liabilities had not been cleared. The amounts recovered by the SNR had been used to repay holders of frozen deposits in the closed banks up to a threshold which had been progressively raised to CFAF 30 million (equivalent to US$ 60.000) by end January 1995. Those with deposits exceeding this threshold, which included a number of business customers, had not yet received any payment.

Bad Loan Recovery

3.34 The emphasis placed on the recovery of bad loans reflected considerations of both efficiency and equity. In the first place, a banking system cannot operate efficiently unless the rate of repayment is high and, therefore, unless people know that they can be in serious trouble if they do not service their loans. In the second place, the cost of the restructuring is ultimately covered by tax payers in Senegal and in the industrial countries. Most of these taxpayers have living standards lower than those of most big debtors. Not pursuing these debtors would be allowing a wealth transfer from the poor to the rich.

3.35 The FSECAL considered it necessary to convey the message that something had changed and to show that big debtors would be pursued vigorously even if they were well connected. Unfortunately, this message did not really go through.

3.36 The nonperforming loans were a mixed bag which had not been carefully sorted according to probabilities of recovery. It was nevertheless rightly felt that quantitative targets had to be set in order to exert pressure on the authorities. Starting from October 1988, cumulative recovery targets were set at CFAF 9.8 billion by June 1990, CFAF 16 billion by February 1991 and CFAF 23.1 billion by end December 1991 with an ultimate target of CFAF 32 billion. Recovery fell short of targets until the Societe Nationale de Recouvrement (SNR) became operational in June 1991. At that time, only CFAF 12 billion had been recovered, which was CFAF 4 billion below the target which should have been reached four months earlier. Moreover, the recovery rate for large debtors was only one third of what it was for small debtors. After the establishment of the SNR, the pace of recovery improved with CFAF 19.3 billion recovered from June 1991 to September 1993, but the recovery rate remained lower for large than for small debtors.

3.37 It was clear from the start of the recovery effort in October 1988 that the major part of the loans turned sour could not be recovered. This was often already known at the time the loans were made. It was the case of the loans extended to unprofitable public enterprises which should have received subsidies instead of loans or should have been closed. It was also the case of politically motivated loans, such as those to finance electoral campaigns.

There were also loans extended to sophisticated well connected operators under various types of rent seeking arrangements with the tacit understanding that the borrower would not be troubled if he did not service his loan on schedule. If such an operator had a sizable wealth but no intent to repay, he had ample time from October 1988 to June 1991 to organize his financial affairs in such a way that nothing could be seized by the SNR.

3.38 A number of loans were politically motivated and, as could have been expected, they were seldom repaid. This also partly explains why the SNR did not become operational before June 1991. The beneficiaries were also partly protected by the judicial system because a number of judges were bad debtors themselves, while others did not object to receiving compensations to supplement their meager salaries.

3.39 A more serious concern is the inadequacy of the judiciary system for the conduct of business and the lack of progress in the last five years. This concern had been already expressed in 1988 during the pre-appraisal stage. It was not addressed in the adjustment operation presented to the Board in December 1989, but it will need to be addressed in future operations.

Conclusions

3.40 The FSECAL was a well-focused operation, in which a common objective was shared by all parties concerned: the Governments of Senegal and of other members of the UMOA, the Central Bank of the Union (BCEAO), France, the United States, the IMF, and the Bank.

3.41 The most important objective of the FSECAL was to restore the health of the banking system, which required important policy changes both in the UMOA and in Senegal. This objective has been reached and the improvement would be sustainable with an appropriate follow up at the country and UMOA levels. In Senegal, one bank still has to be restructured and the recovery of bad debts improved. In the UMOA, financial markets have to be liberalized and they have to gain more depth.

3.42 According to the criteria set in the FSECAL, the agricultural bank (CNCAS) should have been closed. It was not, because the program did not provide a substitute for extending the agricultural credit needed. With the experience gained under the FSECAL on ways of expanding mutualist credit to small farmers, it might now be possible to dissociate this type of service from the formal banking system. In that case, other types of agricultural credit (including credits for processing agricultural products) could be made available through normal banks or a restructured agricultural bank in which the government share should not exceed 25 percent, as had been specified in the FSECAL.

3.43 Debt recovery was the least successful feature of the financial program, partly because the judicial system was not well fitted to deal with business matters, but no progress has been made on this score. Institutional improvements in the judicial system are now needed both to reduce the cost and to induce a deepening of financial intermediation.

3.44 The reforms of the UMOA adopted in August 1989 closed two important loopholes through which governments had been able to bypass the 20 percent statutory limit on central bank advances to government. They also resulted in a more effective monitoring of prudential ratios by the banks which were given more freedom in allocating credit among their customers. But the money market has not yet been liberalized and has no depth. The securitization of the government debt incurred in the 1990 bank restructuring improved the BCEAO balance sheet, but confused relationships between interest rates applicable to short and long maturities. The BCEAO has still a long way to go to improve the efficiency and depth of financial intermediation.

3.45 Not all the objectives of the FSECAL were fully reached. However, the FSECAL has made a significant contribution toward the adoption of important UMOA reforms and the restoration of a healthy banking system. By achieving this specific objective, the FSECAL may have been the credit which provided the greatest mileage of the various adjustment credits extended by the Bank to Senegal. The reasons for this success are clear: the objective was clearly focused, all parties concerned were convinced of the need to achieve the objective quickly and the key decisions had been taken up in front.

4. Outcome, Institutional Development, and Sustainability

4.1 The FSECAL and SAL IV were approved by the Board within a few weeks of each other. The last disbursements were made two years later in early 1992. In short, these two adjustment operations took place at the same time, involving the same set of political and technical participants, both within Senegal and the World Bank. Yet, the outcomes of the two differed significantly.

4.2 The outcome of the FSECAL is rated as marginally satisfactory but that of SAL IV as unsatisfactory. SAL IV was a complex operation with several demanding reform components. Although these reforms were taken up front, they were unable to yield the desired benefits in the face of a strategy of fiscal expenditure reduction which caused declining incomes. Implementation was aggravated by declining political support for the measures during a time of national elections. On the other hand, the FSECAL was a well-focused operation. The basic objectives and instruments to achieve them were clear, and all parties concerned were agreed on its need, and the key decisions had been taken before approval. Not all objectives of the FSECAL were reached, however. Bank performance is rated as satisfactory for the FSECAL and marginally satisfactory for SAL IV. Borrower performance is rated as unsatisfactory for SAL IV and marginally satisfactory for the FSECAL.

4.3 The institutional development impact of the FSECAL is rated as substantial, while that of SAL IV as modest. The FSECAL was the first operation dealing with financial restructuring in the UMOA region. The prior reforms adopted by the UMOA led to the strengthening of regional central banking, in the first stage. The FSECAL reforms made the domestic banks in Senegal solvent. Because of the reversals of some SAL IV reforms, their institutional development impact was modest. The sustainability of the reforms of SAL IV is rated as unlikely, since the reforms initiated under SAL IV were not sustained. A large part of the financial reforms are implemented at the supra-national level, and they are less subject to any policy reversals that might happen in Senegal. Whether the banks in Senegal would develop into financially healthy institutions would, in the long run, depend on the success of structural adjustment. Therefore, the sustainability of the financial reforms is rated as uncertain.

4.4 In the case of SAL IV, the reversal in public expenditure policy and failure to act on the labor reform code changes led to the cancellation of the third tranche. Many of the gains from the structural reforms in civil service were lost. Reforms in the public enterprise were stronger in the area of reduction of cross-debts, although the gains here were modest. But subsequent events after the devaluation show that the Government could take hard decisions on labor market and wage issues, which were consistent with the adjustment program under SAL IV. The moves initiated by the Government, partly in response to the requirements of the economic emergency, might have come from a higher level of internalization of the economic reform program ownership. This, of course, strengthens the prospects for growth and reform.

4.5 Two issues are worth noting at this point. First is slow formation of consensus on the importance of the overvaluation issue for the CFA franc. The Bank was ahead in recognizing that the overvaluation of the currency was causing a major problem among the CFA franc countries and was seriously reducing competitiveness. Lack of consensus on the issue held off an early resolution of a difficult problem. By giving conflicting messages on the issue, full adjustment was delayed unnecessarily.

4.6 Second, authorities in Dakar often commented on the excessive detail of program conditionalities.[8] The result, they felt, was to focus on details and not on substance. From the viewpoint of the Government, the large number of components and conditions associated with an adjustment operation often consumed the substantive work of the agency in charge. Based on the Bank's experience, especially in adjustment lending relations with Senegal, operations with unclear conditionality were difficult to enforce. The root of this problem, however, is to provide unambiguous focus on the actual policy intentions that the Government wants to pursue. A less committed Government would comply with conditionality only in form and not substance. In short, the issue is one of program ownership.[9]

8. For instance, the policy matrix of SAL IV contains a detailed listing of each of the components of these action programs. Each component of the program required several detailed set of actions: for macroeconomic and fiscal management, six specific measures were outlined; for private sector incentives, eleven conditionalities; for public enterprise reforms, 14; and for civil service reforms, 5 measures. (See Annex Table 3.)

9. The PCR (Bank Report No. 13723) says (p.11): "In areas of the adjustment program where leadership was strong, such as the initial PE divestiture efforts, significant progress was achieved despite political opposition. In areas of the program where the leadership was weak, such as... civil service size and wages, reform efforts made little headway."

5. Postscript: Gravitating Towards Macroeconomic Crisis and Devaluation

5.1 Major personnel changes in the Government were made in 1991, which signaled the weakening of resolve to carry out SAL IV measures. The preparation for the elections of 1993 took center stage[10]. After the second tranches of SAL IV and the FSECAL were released in January and February 1992, the Government reversed its policy of fiscal compression and instead expanded public expenditure. Since the Government could not any more fulfill the conditions for the release of the third tranche, the Bank decided to let the closing date of SAL IV to pass without closing the credit. However, the third tranche was later cancelled.

5.2 A consequence of the elections of 1993 was the worsening of the macroeconomic condition. The budget deficit (on a commitment basis) turned from the surplus position of 1990/91 of CFAF 32 billion to a deficit of CFAF 40 billion in 1992. This represented a deterioration equivalent to 4.4 percent of GDP. Four fifths of this was attributable to the preelection expenditures. Given the lack of any external budgetary support, the financial prospects for 1993 were even more grim than the year before.

5.3 To deal with the worsening situation, the Government reversed the fiscal policy again and undertook an emergency program calling for fiscal austerity. The Government reduced the civil service pay by 15 percent. It took a tough attitude toward the trade unions. The austerity program was implemented without any social disorders.

5.4 Despite setbacks in the structural adjustment program, after the presidential elections, the time was ripe for the Bank to encourage the Government to internalize the policies that were needed to solve the structural problems confronting Senegal. It is useful to record these efforts in this audit. Bank senior staff made themselves available as resource speakers in national consensus building forums that were organized by the Government. This enabled the conferees to hear the Bank's point of view regarding adjustment, emphasizing that the measures to solve them rested with Senegal. These national conferences were attended by a wide representation of Government representatives, private businessmen, union leaders, and were widely reported in the press.

5.5 In addition, the Bank facilitated the work of a technical committee created by the Government which studied the problems and policy options relevant to Senegal's economy. In 1993, this committee undertook work in Senegal, and went to Washington to hear a wide range of views and experiences within the Bank. At headquarters, Bankwide expertise was made available to discuss strategic policy issues faced by Senegal. The comparative experiences of other countries were examined. And in the end, a diagnostic report on the

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10. The presidential elections were scheduled in February 1993. Those for the National Assembly took place in May 1993. The President and his Government won a new mandate in these elections.

policy options for Senegal was prepared by this committee for the use of the Government's policymakers.

5.6 In January 1994, the devaluation of the CFA franc took place. The Government initiated an emergency recovery program with the support of the IMF and the Bank. The Economic Recovery Credit was followed by two sectoral adjustment credits approved by the Bank in February and March 1995. One dealt with the promotion of the private sector (US$40 million) and the other with agriculture (US$45 million).

5.7 Since the devaluation, growth prospects have improved. Export gains were particularly noticeable for tourism, fishing and phosphates. The improvement of regional trade has been observed, too. Some improvement has also been noted in domestic construction and even in some of the import substituting industrial sector, with the revival of the textile industry. On the reform front, the Government undertook difficult measures following the 1993 elections. These measures were similar to those in SAL IV. Reform measures were made on issues previously considered taboos: special industrial conventions, liberalization of the labor market, and restructuring of social services in the University of Dakar.

6. Lessons Of Experience

Common to SAL IV and FSECAL

6.1 *Program ownership.* As in other cases, Government ownership of the reform program is a requirement of successful adjustment. In Senegal, components of reform which contained strong Government sponsorship succeeded at least initially. In other areas where there was weak leadership, the reforms did not progress sufficiently. Moreover, in the presence of weak commitment to reforms, policy reversals could and did occur.

6.2 *Focus.* A well-focused reform program leads to better results. The financial sector reforms were well-focused, both in the objectives and in the instruments to be used. One of the reasons for the poor results of SAL IV was that the reforms were many, and they required attention from different fronts. Hence, adjustment programs should be kept well-focused on a few key objectives.

6.3 *Donor coordination.* In the case of SAL IV, there were conflicting signals from different donors, especially on the issue of devaluation and macroeconomic strategy. This gave the Government the opportunity to play for time and to set off the various donors against each other. In the case of the FSECAL, the donors were of one mind. This helped a lot in tightening the reform objectives and in promoting rapid adoption of the sector reforms.

6.4 *Internalizing economic reform processes.* The Bank can play a useful role in helping the Government internalize its ownership of policy reforms.. The adjustment program provided countless opportunities for discussions of the reform issues even after the abandonment of the SAL IV in 1992. With the wide technical resources available to the

Bank, it can help Governments to explore all the different policy options that they face. By making available sound advice and international development experience, the Bank was able to assist the Government of Senegal review the various policy options, while steering away from clear-cut advocacy.

6.5 *Upfront reforms.* Upfront reforms require lead time and therefore much initial preparation. They represent a better guarantee that reforms are implemented. For this reason, they should be favored over promised reforms. However, upfront measures can also be reversed by the Government.

SAL IV

6.6 *Serious external disequilibrium cannot be solved mainly by a program to reduce internal demand through fiscal compression. The catalytic force of exchange rate devaluation would be needed.* Under the condition of excessive currency overvaluation, a stabilization policy based mainly on fiscal cuts in expenditure is likely to fail since the policy induces a decline in incomes and employment without producing the desired changes in relative prices. After the devaluation of the CFA franc, it proved easier to adopt some structural policy measures which could not taken by the Government earlier.

FSECAL

6.7 *Sequencing financial with other structural reforms.* Undertaking the financial sector reforms ahead of the improvement of macroeconomic conditions in Senegal made it possible for the banking system to be in better health by the time of devaluation. Because the workouts on the restructuring of the banks was undertaken well before devaluation took place, it was possible to have relative financial calm in the banking and financial sector during the devaluation. The banks were liquid at the time of devaluation, and they were able to respond more positively to the developments that benefited from devaluation.

6.8 *The Bank's positive role in regional reforms.* The Bank can play a significant role in supporting regional reforms affecting a group of countries. The FSECAL is a sound example of regional reforms being translated into a concrete sector reform within one country. This has, of course, been repeated in other countries.

Table 1

Key Economic Indicators

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	1988	1989	1990	1991	1992	1993 Est.
NATIONAL ACCOUNTS (as % of GDP at constant 1987 prices)						
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Primary sector	22.6	20.3	21.2	20.3	20.2	19.5
Secondary sector	18.4	18.3	18.5	18.8	19.2	19.1
Tertiary sector	59.0	61.4	60.3	60.9	60.6	61.4
Consumption	94.0	94.9	93.4	94.4	95.0	95.1
Gross domestic investment 1/	12.3	12.5	12.0	12.2	12.3	12.5
Public fixed investment	3.8	4.0	3.7	3.7	3.7	3.7
Private fixed investment	8.4	8.5	8.3	8.5	8.6	8.8
Resource balance	-6.3	-6.0	-5.5	-6.5	-7.1	-7.6
Exports GNFS	23.8	25.5	25.6	24.7	23.7	23.8
Imports GNFS	-30.1	-31.5	-31.0	-31.2	-30.8	-31.4
Gross domestic savings	6.0	5.1	6.6	5.6	5.0	4.9
Memorandum Items:						
GDP at m.p. (current US$ million)	4979.2	4628.5	5701.8	5639.5	6276.5	5704.0
GDP per capita (current US$)	714.6	644.5	770.1	739.6	801.3	707.7
Average exchange rate (CFA/US$)	297.9	319.0	272.3	282	265	286.5
PUBLIC FINANCE (as % of GDP at current market prices) 2/						
Government revenue (excl. grants)	18.6	17.2	19.2	18.9	17.7	15.7
Total expenditures and net lending	20.6	21.5	18.8	19.9	21.3	19.6
Overall surplus (+) or deficit (-)	-4.0	-4.4	0.3	-1.0	-3.7	-3.9
Capital expenditure	2.8	2.6	2.8	4.4	5.0	4.0
REAL ANNUAL GROWTH RATES (1987 prices) (%)						
Gross domestic product	5.1	-1.4	4.5	0.8	2.9	-2.0
Gross domestic income	3.0	3.0	5.5	0.3	2.7	NA
REAL ANNUAL PER CAPITA GROWTH RATES (1987 prices) (%)						
Gross domestic product	2.1	-4.4	1.5	-2.1	0.0	-4.9
Total consumption	0.9	-3.4	-0.3	-1.2	0.8	-4.7
Private consumption	1.6	-4.2	0.3	0.4	1.6	-5.2
MONETARY INDICATORS						
Velocity (GDP/M2)	4.4	4.0	4.4	4.3	4.3	4.9
Growth rate of M2 (%)	0.5	10.3	-4.8	5.8	3.6	-12.6

Key Economic Indicators (cont'd)

	1988	1989	1990	1991	1992	1993 Est.
BALANCE OF PAYMENTS (current CFA Billions)						
Exports GNFS	344.5	400.3	400.9	391.0	376.3	363.5
of which: Merchandise f.o.b.	202.1	262.0	263.3	232.5	219.2	203.7
Imports GNFS	-440.8	-483.1	-476.8	-477.5	-479.1	-474.0
of which: Merchandise f.o.b.	-285	-319	-317.0	-314.3	-317.7	-312.0
Resource balance	-96.3	-82.8	-75.9	-86.5	-102.8	-110.5
Net factor payments	-72.0	-61.2	-64.0	-54.2	-53.0	-54.1
of which: Interest due (DRS data)	61.6	54.5	55.0	46.1	44.0	44.7
Net current transfers (private)	1.8	2.0	8.0	8.0	9.7	11.4
Current Account bal., before off. trans.	-166.5	-142.0	-131.9	-132.7	-146.1	-153.2
Net official transfers	81.2	82.9	72.2	74.8	74.1	67.9
Current Account bal., after off. trans.	-85.3	-59.1	-59.7	-57.9	-72.0	-85.3
CAPITAL ACCOUNT	12.3	33.6	35.3	13.4	37.5	6.5
Public Sector (net)	34.5	40.8	11.8	16.4	37.2	23.3
Drawings	96.0	102.9	80.4	69.8	78.9	64.3
Amortization	-61.5	-62.1	-68.6	-53.4	-41.7	-41.0
Private Sector (net)	-23.0	-4.7	-3.4	-1.1	-9.8	-15.3
Errors and Omissions	0.8	-2.5	26.9	-1.9	10.1	-1.5
Overall balance	-73.0	-25.5	-24.4	-44.5	-34.5	-78.8
FINANCING	73.0	25.5	24.4	44.5	34.5	78.8
Net Foreign Assets (BCEAO)	39.1	-30.2	-17.9	-4.0	-5.4	31.7
Operations account and other	38.7	-31.8	-10.7	-7.1	6.3	39.4
Net use of Fund resources	0.4	1.6	-7.2	3.1	-11.7	-7.7
Payments arrears (reduction -)	0.0	11.4	-7.5	5.6	27.4	37.3
Debt relief/deferral	33.9	44.3	49.8	42.9	12.5	9.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:						
Gross reserves, Year-end (US$ million)	10.7	17.9	10.3	12.1	14.4	5.2
Gross reserves as months of imports	0.1	0.2	0.1	0.1	0.1	0.1
Exports GNFS as % of GDP	23.2	27.1	25.8	24.6	22.6	22.2
Imports GNFS as % of GDP	-29.7	-32.7	-30.7	-30.0	-28.8	-29.0
Resource balance as % of GDP	-6.5	-5.6	-4.9	-5.4	-6.2	-6.8
ANNUAL GROWTH RATES (current prices) (%)						
Merchandise exports, f.o.b.	0.2	19.7	0.5	-4.4	-5.7	-7.1
Merchandise imports, f.o.b.	-0.9	11.9	-0.5	-0.9	1.1	-1.8
PRICE INDICES (1983=100)						
Export price index (CFA franc terms	102.5	108.8	100.3	88.9	87.3	89.0
Import price index (CFA franc terms	84.9	91.2	88.0	85.8	83.6	86.2
Terms of trade	120.7	119.3	114.0	103.6	104.5	103.2
Real effective exchange rate (IMF data)	98.3	95.8	93.3	86.3	87.1	85.2
Consumer price index (% growth rate)	-1.8	0.4	0.3	-1.8	0.0	-0.7
GDP deflator (% growth rate)	2.1	0.9	0.6	1.6	1.5	0.4

1/ Figures do not reflect changes in stocks.
2/ Figures for 1988-1991 are for the respective fiscal years.
Source: IMF, World Bank

Key Exposure Indicators Page 1 of 1

	1988	1989	1990	1991	1992	1993 Est.
In US$ million at current prices:						
Total debt disb. & outstanding (TDO) 1/	3897.0	3285.0	3741.0	3557.0	3607.0	3691.0
Net disbursements 1/	115.8	127.9	43.3	58.1	140.5	81.3
Total debt service due (TDS) 1/	323.6	268.0	304.1	256.3	258.5	278.2
Debt and Debt Service Indicators (%) 1/						
TDO/GDP	78.3	71.0	65.6	63.1	57.5	64.7
TDO/XGS	334.1	257.7	250.4	252.5	249.4	285.6
TDS/XGS	27.7	21.0	20.3	18.2	20.6	21.5
Concessional/TDO	52.6	53.4	53.2	55.2	57.4	60.8
World Bank Exposure Indicators (IBRD+IDA) (%)						
World Bank DS/Public DS	8.8	8.8	11.8	13.5	15.0	12.9
Preferred Creditor DS/Public DS	31.0	31.3	39.8	41.4	55.1	41.1
World Bank DS/XGS	2.1	1.9	1.7	2.1	1.5	2.1

1/ Includes public and publicly guaranteed debt, private non-guaranteed debt, use of IMF credits, and short-te
Source: IMF, Debtor Reporting System (DRS).

Table 2.
Financial Sector Adjustment Credit (Credit 2077-SE) Status of Legal Covenants

Section 3.01	
(a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.	Fulfilled.
(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.	Nothing in the Bank's files indicates conditions pertaining to bad debt recovery were ever fulfilled. A mission noted in 7/90 that, in order for the second tranche to be released, audited figures on bad debt recovery would be required starting with 6/30/90. Despite two audits financed by USAID, it was never clear whether bad debt recuperation figures included or excluded normal recovery on sound credits. Nevertheless, authorization was given by the Bank for second tranche release.
Section 3.02 Except at the Association shall other wise agree, procurement of the goods to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.	Fulfilled.
Section 3.03 (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.	Fulfilled. Expenditures form the proceeds of the Credit on imported food and petroleum products were audited and found to be in compliance.
(b)The Borrower shall:	
(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principle consistently applied by independent auditors acceptable to the Association;	Complied. Audits for 6/30/90, 6/30/91 and 6/30/92 on file.

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably request; and	Complied.
(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.	Complied.
(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:	
(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;	Complied.
(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;	Complied.
(iii) enable the Association's representatives to examine such records, and	Complied.
(iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.	Complied.

Table 3
SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
I. MACROECONOMIC AND FISCAL MANAGEMENT					
1. **Financial Stabilization.** Continue to improve the Government's fiscal and current account operations.	- Notable progress has been made in recent years such that the budget deficit went from 8.2% of GDP in 1982/83 to 2.8% of GDP in 1987/88 and the current account deficit from 17.4% to 10.2% over the same period. The inflation rate declined sharply.	1. Redress the budgetary position (on a commitment basis and excluding external grants) from a deficit of 4.0% of CDP in 1988/89 to: . -2.9% of GDP in 1989/90 . -1.6% of GDP in 1990/91 Reduce the current account deficit (excluding grants) from 9.6% of GDP to: . -8.3% of GDP in 1989/90 . -6.9% of GDP in 1990/91	6/90 6/91 6/90 5/91	Overall Performance Overall Performance	-4.0% -0.1% -8.4% -8.9%
2. **Current Expenditure.** Reduce the wage bill and improve allocations between wage and non-wage expenditures so as to increase the productivity of civil service. Reduce transfers to parastatals.	- See civil service and PEs sections.	See civil service and PEs sections.			
3. **Revenue Mobilization.** Improve revenue performance and reduce reliance on exceptional resources (profits from imports of rice and petroleum) by shifting to a more stable revenue base.	- A tariff reform was adopted in August 1986 and a tax reform was initiated under SAL III. Including the extension of the Value Added Tax (VAT) to new subsectors and the simplification of direct taxation for individuals and companies. Further to a sharp decline in customs collections in the second half of FY89, on an exceptional and temporary basis, tariffs have been raised by 5 percentage points across the board in September 1989 for a two-year period.	2. Remove the import duty exemption on inputs to textiles, batteries, and matches industries.	7/91	Overall Performance	Not implemented
	- A plan of action was developed on the basis of a study of the domestic tax system and administration in collaboration with the IMF and the World Bank. The study aimed at (i) reducing the dependence on taxation on energy and (ii) identifying other sources of revenue without overtaxing the modern sector (July 1989).	3. Implement the domestic tax and administration sector program, in particular extend VAT to services and commerce, and reduce the under-invoicing of imports by introducing a minimum duty on under-invoiced items.	Continuous	Overall Performance	Implemented
		4. Implementation of an action plan to improve customs administration, particularly the valuation sections and the computerization of customs clearance procedures to reduce fraud.	9/90	Overall Performance	Partially implemented
	- Implementation of tax administration measures aiming at improving tax collection. These measures, particularly those in the area of customs, were identified under SAL III.	5. Take stock of arrears and reinforce the mechanism of their recovery through computerization of information.	Continuous	Overall Performance	Not implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
4. Public Investment Programming - Consolidate the process of budgeting already underway to achieve greater efficiency of public investment.	- Basic principles of projects planning and preparation are well established (3 PTIPs have been satisfactorily reviewed by the Bank including that for 1989/90-1991/92). Studies are under way to take into consideration the recurrent cost impact of the PTIP in four sectors (Education, Health, Hydraulics, and Transport). A guide for project analysis (for productive projects) have been completed and is being disseminated.	6. Improve the preparation of the three-year rolling public investment program by consolidating PTIP with recurrent budget and better defining sector strategies: and adopt for each year an investment program in consultation with IDA. - 1990/91-1992/93	6/90	Tranche II	Implemented
		- 1991/92-1993/94	6/91	Tranche III	Implemented
5. Financial Sector. Improve the financial intermediation process.	The Government is currently implementing a financial sector reform program with the support of IDA, France and USA.				

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		II. PRIVATE SECTOR INCENTIVES			
1. Removal of labor market rigidities and reduction in labor costs.	- Two aspects of labor code have been changed under SAL II which allow employers to (i) hire without using the "Service de la Main d'Oeuvre"; and to (ii) expand somewhat use of fixed-term employment contracts.	1. Expand significantly possibility of using fixed-term contracts by (a) passing application decree to the Labor Code to cover existing firms which are expanding: (b) modifying the Investment Code to allow firms to use renewable fixed-term contracts of up to 5 years and exempt SHEs from prior authorization for laying off workers, and (c) modifying the ZFID statute to enable enterprise to benefit from most favorable conditions under the investment code.	10/89	Board Present.	Partially implemented
		2. Reduce labor cost by freezing the SMIG for 3 years and exempting certain enterprises from both "contribution forfétaire" and payment of income taxes on their employees.	10/89	Board Present.	Implemented for the ZFID only
		3. Review the country's wage setting system with the view to move towards market determined wages. Participation of employers and labor organizations will help solidify practice of realistic negotiations and dialogue among social partners.	9/90	Tranche II	Implemented
2. Reduction in production costs other than labor.	- A number of studies have been completed in the energy sector. They cover audit of SAR, the system of procurement, refining and distribution of petroleum products, and the fiscal aspect of petroleum practice and taxes (IMF/Bank study).	4. Amend the special agreement with SAR on term and conditions acceptable to IDA and publish a decree to that effect reflecting a new transparent pricing and taxation system for petroleum products. Under the new system, ex-SAR prices will be set at import parity and adjusted quarterly. In addition, SAR will be paid a handling fee to be negotiated with the two parties concerned.	12/89	Board Present.	Implemented but pricing system used only once
		5. Reduce, in consultation with the World Bank and IMF, energy prices - First phase - Subsequent actions	 7/90 1990/91	 Tranche II Overall Performance	 Implemented
	- Off-peak telecommunications charges reduced by 20% from July 1, 1989. - A study is underway to formulate appropriate tariffs for the port of Dakar.	6. Reduce further telecommunications prices for peak and semi-busy hour periods, and tariffs for the port of Dakar.	6/90	Overall Performance	Implemented
3. Improvement in investment incentives and in the regulatory environment.	- Establishment of one-stop services for investors (Guichet Unique).	7. Study and implement measures aimed at simplifying the administrative regulations for doing business in Senegal and for the strengthening of fiscal administration (DGID). - Prepare plan of action based on the findings of the study. - Implement plan of action. - Restructure DGID and improve operating procedures.	 11/89 Continuous 9/90	 Board Present. Overall Performance Tranche II	 Implemented Partially implemented Implemented
		8. Prepare and implement an action plan for reducing the marginal effective tax rate, following the findings of the corporate taxation study and the implementation of the new direct tax structure.	12/89	Board Present.	Implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		- Implement plan of action	Continuous	Overall Performance	Implemented
		- Establish single personal income tax, separate corporate tax and eliminate PBE.	1/90	Tranche II	Implemented
4. Promotion of exports.	- Duty drawback scheme and export subsidies introduced under SAL I and rationalized under SAL II.	9. Revise legislation of ZFID and improve administration to eliminate constraints to its expansion.			
		- Implement action plan	7/90	Overall Performance	Implemented
		10. Revise effectiveness of duty drawback scheme and administration and structure of export subsidy scheme. Implement findings of the review.	12/90	Overall Performance	Implemented
5. Special Agreements.		11. Implement a plan of action revising the SOCOCIM special agreement, in particular the pricing system.	6/90	Overall Performance	Not implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		III. PARAPUBLIC SECTOR REFORM (PEs)			
1. Subsidy Reductions. Improved financial relations between the State and the Parapublic Sector and reduction of the burden on public finances.	- A program of direct operating subsidy reductions has been agreed under SAL III and Implemented according to the following schedule: 1986/87 5% reduction vis-a-vis 1985/86 amounts 1987/88 15% reduction vis-a-vis 1985/86 amounts 1988/89 30% reduction vis-a-vis 1985/86 amounts 1989/90 50% reduction vis-a-vis 1985/86 amounts	1. Elimination of direct operational subsidy to commercial PEs and Reduction of direct operational subsidy to non-commercial PEs (excluding CDUD). The budgeted and actual total amount should not exceed:			
		. CFAF 9.9 billion for 89/90 for non-commercial PEs	7/90	Tranche II	Implemented
		. CFAF 9.1 billion for 90/91 for non-commercial PEs	7/91	Tranche III	Implemented
		. CFAF 7.4 billion for 91/92 for non-commercial PEs			
		. CFAF 0.6 billion for 89/90 for non-commercial PEs	7/90	Tranche II	Implemented
		. CFAF 0.3 billion for 90/91 for non-commercial PEs	7/91	Tranche III	Implemented
		. CFAF 0.0 billion for 91/92 for non-commercial PEs			
	- Government has issued circular discontinuing practice of equipment subsidies. As of July 1989, practice of allowing PEs to have over-drafts has been discontinued.	2. All future Capital Increases should be either in the form of long-term loans or equity injections as appropriate and should be subjected to the same criteria as the rest of the PTIP.	Continuous	Overall Performance	Not implemented
		3. Transform stock of overdrafts as of June 1989 into longer term loans and write off the part that cannot be paid by non-commercial enterprises.	7/90	Overall Performance	Not implemented
	Cross-debts between the PEs and the State were deteriorated up to the end of 1986. Timetable has been established for their settlement.	4. Develop an action program satisfactory to the Bank to settle all cross-debts as of December 1989. The program should include measures to prevent the recurrence of cross-debts.	12/89	Board Presentation	Implemented
	Government eliminated indirect financial subsidies through (a) abolishing Government guarantees on PE domestic borrowing and (b) charging commercial interest rates on on-lent foreign debt.	5. Cancel all undisputed cross-debts, settle all disputed cross-debts, write off all debts of non-commercial PEs to Government as of December 31, 1989; include in the 1990/91 budget at least one third of all debts owed by the Government to the PEs, and assure settlement of at least one third of all debts owed by commercial PEs to the Government as of December 31, 1989.	9/90	Tranche II	Implemented
		6. Include in the 1991/92 budget at least one third of all debts owed by the Government to the PEs and assure settlement of at least one third of all debts owed by commercial PEs to the Government as of December 31, 1989.	9/91	Tranche III	Implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
2. Privatization. Withdrawal of the State from non-strategic PEs by means of privatization and liquidation.	- The liquidation of 7 SBis and 2 Etablissements Publics was finalized in March 1989.	7. Completion of all preparation and formal offer for sale in a manner satisfactory to the Bank of:			
	- 20 SBis were selected for privatization and 10 were announced for sale in October 1987. Shares in two of the companies on the list and in one other company were sold and those of a fourth company were offered for sale in the third quarter of 1989.	- SIDEC, VACAP, SAIH, SERAS, SNSS, SENPRIH (Project), SONED, SENHOTEL	12/89	Board Presentation	Implemented
		- SIPOA, SINAES, MAMO, DAKAR MARINE, IRANSEM, SODEME, Fruitier Mboro, ONCAS, BICIS	9/90	Tranche II	Largely implemented
	- Government has endorsed a strategy for privatization aimed at withdrawal from all non-strategic PEs.	- SOTEXKA, SICAP, BMS, SODIDA, SODEZI, SODIMI, SODISA, SO SONEPI, SIAS, SEPFA, SOMADIS, SONACOS	9/91	Tranche III	Not implemented
		8. Liquidations			
	- Government has decided on five PEs for liquidation.	- Liquidation decree signed, employees laid off and all operations stopped for five enterprises to be liquidated.	6/90	Tranche II	Implemented
		- Signature of liquidation decrees for second group of at least 5 PEs, employees laid off and all operations stopped.	6/91	Tranche III	Implemented
		9. Undertake study and act on recommendation for the creation of secondary market for shares.	12/90	Overall Performance	Not implemented
3. Rehabilitation of PEs. Maintain efficiency and performance of those PEs to remain under Government control by means of rehabilitation plans and the contract-plan (CP) mechanism.	- Etablissements Publics (EPs) were converted to *Sociétés* Nationales (SNs) in 1987. Improving their management autonomy.	10. Rehabilitation program and contract plans - Include all subsidy reductions, cross-debts settlement and other financial transactions with Government in the CPs.	Continuous	Overall Performance	Implemented
	- Rehabilitation programs were prepared for SOTRAC, SONATEL, SONEES and SENELEC.	- No CPs will be in force without identification of resources in the current and following year's national budget to finance them If necessary, CPs will be renegotiated annually, according to the budgetary resources available.	Continuous		
	- CPs were signed for SOIRAC, SONATEL, SONEES, SENELEC, and Lettres de Missions (LM) were signed for SODAGRI, SODEVA, SODEFITEX, SAED, and SOMIVAC.	- Prepare programs and begin implementation for NIS, DRTS, ITA, SICAP, OMLH, PAD, AND RCFS.	6/90	Overall Performance	Partially implemented
		- Sign CPs for OMLH PAD, RCFS, DPCE and SONATRA.	6/90	Overall Performance	Partially implemented
		- Submission of revised CPs consistent with regard measures to reduce subsidies and settle cross-debts.	7/90	Tranche II	Implemented
		- All new CPs to include performance incentives bonuses for PE managers.	Continuous	Overall Performance	Partially implemented
		- Honor all financial obligations of Government within the CPs.	Continuous		
		- The DRSP will advise on the necessary measures at enterprise level program to ensure compliance with agreements.	Continuous	Overall Performance	Not implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
4. Sector Management, Legal and Institutional Reform.	- The Contract-Plan Cell was upgraded in June 1987 to the Delegation of Parapublic Sector Reform (DRSP) and has recently been provided with new premises and additional staff.	11. Strengthen institutional framework for PE reform.			
		- Maintain the staffing and financing of the delegation for PE reform (DRSP) to allow it to continue formulating, managing and monitoring the PE reform program and to manage a performance incentive system for PE managers.	Continuous	Overall Performance	implemented
		- Retain specialist advice in the form of long-term TA and short-term consultants to help with audits, evaluations, negotiation and sale of PEs to be privatized.			
	- Studies on the organization and functions of the supervisory agencies were completed in March 1988.	12. Strengthen parapublic cell in Ministry of Finance to enable it to monitor all Government/PE financial transactions. Create an information system which will work alongside that of the DRSP and be compatible with it. Design and implement system.	3/90	Overall Performance	Implemented Reversed later
		13. Amend and publish parapublic sector law (87.19) so as to: - Eliminate special controls on mixed economy PEs (SEM) in which government is a minority partner and on private sector companies receiving financial support from Government.			
		- Eliminate the right to vote on PE board decisions by Financial Controller of the Presidency (CFP).			
		- Limit the role of the Office of Organization and Methods (BOH) in the PE sector to responding to specific requests from the Boards of Directors.			
		- Restrict the role of the Audit Commission (CVCCEP) to a posteriori auditing of PE accounts.			
		- Transform all commercial public establishments (EP) into sociétés nationales (SN), and turning all administrative and non-commercial EP to the central administration. Closing down the center for public establishments CEP) which includes the central accounting agency (ACC) and the controller of financial operations (COF).			
		- Modify the composition of all PE boards of directors to include in each case at least two persons nominated because their capabilities and qualifications and not because of their positions in the administration or their representation of interest groups.			
		14. Full implementation of closure of ACC/CDF and changes to all PE Board of Directors.	12/90	Overall Performance	Not implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		IV. CIVIL SERVICE REFORM			
1. Overall objective.		1. Prepare an action plan in consultation with IDA to reduce the wage bill and improve civil service management. The plan is to include in particular the measures described below. In addition, the Government is committed to maintain, beyond 1992, the number of servants below 1991/92 levels, and the wage bill below 40% of revenues.	11/89	Negotiations	Implemented
2. Staff reduction.	No new hiring, except for replacement and reductions in the number of intake from training schools. A number of studies have been completed by the Government, namely the July and November 1989 BOM reports which focus on the restructuring of the current administration.	2. Reduce the number of civil servants through a program of administrative restructuring and voluntary departures.			
		- Implement the restructuring plan reducing the number of ministries from 26 to 15.	3/90	Overall Performance	Implemented later reversed
		- Reduce the number of civil servants by about 4,300 through voluntary departure, restructuring an early retirement by June 1992.	6/91	Overall Performance	Partially implemented later reversed
		- Privatize selected services thus reducing the civil service by another 1,800 staff.	12/91	Overall Performance	Partially implemented
		- Eliminate from the payroll all irregular cases identified by the second staff census.	6/90	Overall Performance	Implemented
		- Ensure that recruitment does not exceed the following: - 435 schoolteachers, and 27% of program departures in the non-education sectors for 1989/90. At a minimum, there will be 584 net staff reductions by June 1990.	6/90	Tranche II	Implemented
		- 681 schoolteachers, and 30% of program departure in the non-education sectors for 1990/91.	6/91	Tranche III	Not implemented
		- 797 schoolteachers, and 50% of program departures in the non-education sectors for 1991/92.	6/92	Overall Performance	Not implemented
3. Wage bill reduction.	Staff Census completed in 1987 and updated in 1989. Audit of completion of wage bill completed in September 1989.	3. Control the wage bill and improve its management.			
		- Keep wage bill at or below following ceilings without any arrears as of July 1, 1989:			
		- Realize CFAF 126.8 billion in 1989/90, and budget no more than 125 billion for FY 1990/91.	6/90	Tranche II	Implemented
		- Realize CFAF 125 billion in 1991/92, and budget no more than 125 billion for FY 1991/92.	6/91	Tranche III	Not implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		- Update the administrative status of all civil servants, determine the total amount of back pay adjustments required, and set a timetable to clear them.	4/90	Overall Performance	Implemented
		- Reduce Government's contribution to the Employee Pension Funds from 20% to 15% of base salary.	7/90	Overall Performance	Implemented
		- No salary increase until June 1992, with the exception of performance incentive bonuses to be determined independently from the base salary index.	Continuous	Overall Performance	Implemented
		- Allocate all economies on the wage bill (defined as the difference between the above-mentioned ceilings and the actual wage bill minus arrears settlement, government contributions to the separation packages and incentive bonuses) to the following, in that order: settle pay arrears; contribute to separation packages; and increase bonuses.	Continuous	Overall Performance	Implemented
4. Improve civil service management systems and monitor the reform program.	Major groundwork has been completed under the Development Management Project. This includes organizational study of Civil Service Directorate, completion of a payroll processing system (3/89), review of civil service policies and sectoral personnel units (5/89). The status of the Central Payroll Agency was raised to that of Directorate in September 1989.	4. Adopt and implement all institutional measures required to carry out the reform.			
		- Adopt texts redefining the roles and functions of the sectoral personnel units (DACE and SACE).	4/90	Overall Performance	Implemented
		- Implement new regulations governing National Training Schools (Ecoles Nationales de Formation), in particular those putting an end to automatic recruitment in the civil service.	9/90	Overall Performance	Partially implemented
		- Harmonize special statutes with the general statute of the Civil Service, and define the new indemnity and bonus system (in consultation with the Bank on the principle of fixed amounts independent of the base salary).	7/90	Overall Performance	Not implemented
		- Implement organizational chart and staffing for the Central Payroll Directorate (DCS) and the Civil Service Directorate (DFP): and computerize DCS operations.	4/90	Overall Performance	Partially implemented
	Establishment of an Inter-agency Steering Committee in Nov. 1987, and a task force on Automatic Data Processing in Sept. 1988.	5. Manage the Civil Service Program.			
		- Establish a Steering Committee (Comité de Pilotage) to monitor the restructuring and voluntary departure program.	1/90	Overall Performance	Implemented

SENEGAL: STRUCTURAL ADJUSTMENT CREDIT (SAL IV) - POLICY MATRIX

REFORM AREAS & OBJECTIVES	STATUS & RECENT ACTION	SAL IV ACTION PROGRAM	TIMING	CONDITION FOR	STATUS
		V. SOCIAL DIMENSIONS OF ADJUSTMENT			
1. Job Creation and Poverty Alleviation.	- Creation of the "Delegation a l'Insertion a la Reinsertion et a l'Emploi" (DIRE) Establishment of a National Employment Fund (FNE) and of a Special Employment Fund.	1. Review experience with the FNE/DIRE program with a view of expanding the program if doomed successful.	12/89	Overall Performance	Implemented
		- Implement a public works and employment project in urban areas with donors support.	Continuous	Employment Project	Implemented
		2. Based on estimate of demand for health and primary education services by urban and rural poor, propose satisfactory reallocation of public expenditures in these subsectors to be incorporated in 1990/91 and 1991/92 budgets.	8/90 8/91	Overall Performance	Implemented
2. Population Policy and Human Resources	- Statement of population policy was prepared under SAL II. An adjustment program for the human resources sector is being formulated.	- Revise existing legal document related to family code planning and economic rights of women.	12/89	Overall Performance	Not implemented
		- Prepare and implement actions contained in the HR SECAL according to the timetable set in the SECAL.	Continous	HR SECAL	Implemented
3. Monitoring the impact of structural adjustment.	- Financing was arranged in order to establish a permanent survey capacity and to carry out socio-economic studies Methodology of the survey was agreed with Directorate of Statistics. Sampling frames and classification of households into socio-economic groups was completed.	- Establish the survey unit at the Directorate of Statistics to design the permanent household survey.		Overall Performance	Implemented
		- Establish regional offices to carry out data collections.		"	Implemented
		- Set up a data analysis unit to produce results on the standards of living of households.		"	Implemented
		- Identify socio-economic studies related to household behavior	12/89	"	Implemented

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Table 4.

SENEGAL : List of Commercial Banks as of September 1990

	Shareholders Public a/	Shareholders Others	Date of Establishment	Date of Closing	Total Assets	Deposits
Existing Commercial Banks					(CFAF billion)	
1. Credit Lyonnais - Senegal	5%	95%	6/89		44.9	32.8
2. Banque Internationale pour l'Afrique Occidentale-Senegal (BIAO-S)	29%	71%	7/65		49.5	25.6
3. Banque Internationale pour le Commerce et l'Industrie du Senegal (BICIS) b/	42%	58%	3/65		85.7	55.8
4. Societe Generale de Banque au Senegal (SGBS)	0%	100%	3/65		120.0	62.6
5. CITIBANK	0%	100%	11/75		21.5	13.6
6. Banque de l'Habitat du Senegal (BHS)	37%	63%	12/79		35.6	17.5
7. Banque du Credit et du Commerce International, Overseas Limited (BCCI) c/	0%	100%	7/82		12.2	6.6
8. Banque Islamique du Senegal (BIS) d/	0%	100%	7/82		8.3	2.2
9. Caisse Nationale de Credit Agricole du Senegal (CNCAS) e/	64%	36%	6/84		39.4	4.1
10. Banque Senegalo-Tunisienne (BST)	27%	73%	7/86		4.6	2.8
Commercial Banks Closed since 1989						
1. Banque Nationale de Developpement du Senegal (BNDS)	81%	19%	3/65	9/90	235.6	9.4
2. Banque Senegalo-Kowetienne (BSK)	5%	95%	4/74	9/90	49.5	11.7
3. Societe Financiere Senegalaise pour le Developpement de l'Industrie et du Tourisme (SOFISEDIT)	58%	42%	9/74	11/89	19.8	0.4
4. ASSURBANK	0%	100%	5/87	11/89	14.6	5.8
5. Societe Nationale de Banque (Sonabanque)	88%	12%	12/84	11/89	7.4	3.2
6. Societe Nationale de Garantie et d'Assistance au Commerce (SONAGA)	76%	24%	3/65	11/89	64.8	9.6

a/ Includes the Senegalese Government and other public institutions.
b/ The share of the Government has been reduced to 25 percent in April 1991.
c/ BCCI has since been closed in the aftermath of the crisis affecting the bank.
d/ Formerly known as Massraf Faycal Al Islami du Senegal (MFIS).
e/ The share held by the Government is currently 29 percent. The BCEAO, classified here as a public sector shareholder, holds 35 percent.

Sources: BCEAO and World Bank staff estimates.

Table 5.

SENEGAL: Civil Service and the Wage Bill, 1981/82 - 1991/92 a/

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92
Wage bill (in billions of CFA francs)	83.3	92.7	100.4	106.6	111.8	119.8	122.3	125.2	126.8	129.5	134.9
Annual change (%)	6.4	11.3	8.3	6.2	4.9	7.2	2.1	2.4	1.3	2.1	4.2
Share of current expenditure (%)	50.4	49.7	48.9	49.1	50.7	51.5	50.0	50.5	49.9	55.8	57.9
Share of total expenditure (%)	39.2	36.5	40.8	41.9	42.0	41.9	42.4	41.0	38.9	43.6	41.7
Share of GDP (%)	11.0	10.4	10.3	9.8	9.0	9.0	8.5	8.6	8.3	8.2	8.1
Number of civil servants b/	63,011	66,310	67,718	67,034	68,843	68,131	67,074	66,500	65,668	65,625	64,125
Annual change (%)	6.3	5.2	2.1	-1.0	2.7	-1.0	-1.6	-0.9	-1.3	-0.1	-2.3

a/ Budget year ending June 30.
b/ Excludes technical assistants and employees in process of retirement.

Sources: MEFP, Direction Centrale de la Solde, and Direction de la Fonction Publique.

Table 5.

SENEGAL: Civil Service and the Wage Bill, 1981/82 - 1991/92 a/

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93
Wage bill (in billions of CFA francs)	83.3	92.7	100.4	106.6	111.8	119.8	122.3	125.2	126.8	129.5	134.9	
Annual change (%)	6.4	11.3	8.3	6.2	4.9	7.2	2.1	2.4	1.3	2.1	4.2	
Share of current expenditure (%)	50.4	49.7	48.9	49.1	50.7	51.5	50.0	50.5	49.9	55.8	57.9	
Share of total expenditure (%)	39.2	36.5	40.8	41.9	42.0	41.9	42.4	41.0	38.9	43.6	41.7	
Share of GDP (%)	11.0	10.4	10.3	9.8	9.0	9.0	8.5	8.6	8.3	8.2	8.1	
Number of civil servants b/	63,011	66,310	67,718	67,034	68,843	68,131	67,074	66,500	65,668	65,625	64,125	65,999
Annual change (%)	6.3	5.2	2.1	-1.0	2.7	-1.0	-1.6	-0.9	-1.3	-0.1	-2.3	2.9

a/ Budget year ending June 30.
b/ Excludes technical assistants and employees in process of retirement.

Sources: MEFP, Direction Centrale de la Solde, and Direction de la Fonction Publique.

Table 5.

SENEGAL: Civil Service and the Wage Bill, 1981/82 - 1991/92 a/

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93
Wage bill (in billions of CFA francs)	83.3	92.7	100.4	106.6	111.8	119.8	122.3	125.2	126.8	129.5	134.9	
Annual change (%)	6.4	11.3	8.3	6.2	4.9	7.2	2.1	2.4	1.3	2.1	4.2	
Share of current expenditure (%)	50.4	49.7	48.9	49.1	50.7	51.5	50.0	50.5	49.9	55.8	57.9	
Share of total expenditure (%)	39.2	36.5	40.8	41.9	42.0	41.9	42.4	41.0	38.9	43.6	41.7	
Share of GDP (%)	11.0	10.4	10.3	9.8	9.0	9.0	8.5	8.6	8.3	8.2	8.1	
Number of civil servants b/	63,011	66,310	67,718	67,034	68,843	68,131	67,074	66,500	65,668	65,625	64,125	65,999
Annual change (%)	6.3	5.2	2.1	-1.0	2.7	-1.0	-1.6	-0.9	-1.3	-0.1	-2.3	2.9

a/ Budget year ending June 30.
b/ Excludes technical assistants and employees in process of retirement.

Sources: MEFP, Direction Centrale de la Solde, and Direction de la Fonction Publique.

Table 6.

SENEGAL: SMIG Nominal and Real, 1980-92 a/

	1980 Jan. b/	1981 July	1982 July	1983 April	1985 Jan.	1989 Dec.	1990 Dec.	1992 June	1993 Sept.
Nominal (hourly rate in CFA francs)	133.8	140.5	152.0	174.9	183.8	201.1	201.1	201.1	201.1
Index (Jan. 1980 = 100)	100.0	105.0	113.6	130.7	137.4	150.3	150.3	150.3	150.3
Real Index (Jan. 1980 = 100) c/	100.0	99.2	91.4	94.2	78.3	85.4	85.1	86.8	82.8

a/ Guaranteed interprofessionnel salary (Salaire minimum interprofessionel garanti).
b/ Dates indicate when the SMIG was raised.
c/ Deflated by the consumer price index for the average Senegalese family.

Source : World Bank estimates.

Table 7.

SENEGAL: Minimum and Maximum Salaries for Civil Servants, 1980-90

	1980	1981	1982	1983	1985	1989	1990	1993
Nominal Wages			(in CFAF per month)					
Minimum								
Base salary	22,080	22,080	24,080	26,080	27,211	30,211	30,211	30,211
Special allowance	4,416	4,416	4,816	5,216	5,442	5,442	5,442	6,042
Residence allowance	3,091	3,091	3,371	3,651	3,809	3,809	3,809	4,229
Total	29,587	29,587	32,267	34,947	36,462	39,462	39,462	40,482
Maximum								
Base salary	172,604	172,604	174,604	176,604	177,735	180,735	180,735	180,735
Special allowance	34,520	34,520	34,921	35,321	35,547	35,547	35,547	36,147
Residence allowance	24,164	24,164	24,446	24,725	24,883	24,883	24,883	25,302
Total	231,288	231,288	233,971	236,650	238,165	241,165	241,165	242,184
Nominal Indices			(1980 = 100)					
Minimum	100.0	100.0	109.1	118.1	123.2	133.4	133.4	
Maximum	100.0	100.0	101.2	102.3	102.9	104.3	104.3	
Real Indices a/								
Minimum	100.0	94.4	87.8	85.1	70.2	75.8	76.1	
Maximum	100.0	94.4	81.4	73.8	58.7	59.3	59.5	
Salary as a multiple of SMIG								
Minimum	1.3	1.3	1.3	1.3	1.2	1.2	1.1	
Maximum	10.5	10.3	9.8	8.5	7.9	7.3	6.7	

a/ Deflated by consumer price index for the average Senegalese family.

Sources: MEFP, Direction Centrale de la Solde and World Bank estimates.

Table 8.

SENEGAL: Effective Rates of Protection a/

SITUATION IN 5/85 b/ c/	Output tax	Input tax	E.R.P.	Average
Social goods	55	25	125.00	
Ordinary goods	65	25	158.33	165.42
Luxury goods	90	25	241.67	
SITUATION IN 7/86 c/	Output tax	Input tax	E.R.P.	Average
Social goods	40	20	86.67	
Ordinary goods	45	20	103.33	111.00
Luxury goods	75	20	203.33	
SITUATION IN 7/88 c/	Output tax	Input tax	E.R.P.	Average
Social goods	30	20	53.33	
Ordinary goods	40	20	86.67	89.33
Luxury goods	60	20	153.33	
SITUATION IN 9/89	Output tax	Input tax	E.R.P.	Average
Social goods	35	25	58.33	
Ordinary goods	45	25	91.67	94.58
Luxury goods	65	25	158.33	
SITUATION IN 8/90	Output tax	Input tax	E.R.P.	Average
Social goods	38	28	61.33	
Ordinary goods	48	28	94.67	97.73
Luxury goods	68	28	161.33	

a/ The effective rates of protection (ERP) were calculated using prevalent tariff rates for three types of imports (social goods, ordinary goods, and luxury goods).
b/ Changes in nominal tariff rates were made at these dates.
c/ Until 1988, the ERP incorporated the impact of quantitative restrictions.

Source: World Bank estimates.

Financial Workout of Senegal's Bank Restructuring

1. The health of the banking system in Senegal had to be restored without losing the confidence of the public and, for this purpose, it was necessary to compensate those with deposits in the banks which had to be closed. The total cost of the restructuring operation was of the order of one quarter of one trillion CFAF or US$ 830 millions, which was equivalent to the yearly government revenue or 17 percent of GDP. Most of the cost had to be borne by the state, but the Senegalese Government had no money at its disposal. It was, therefore, necessary to find a borrowing scheme resulting in a debt service which would be bearable by Senegal's Treasury over time.

2. In establishing the financial workout, the first step was to identify the distressed banks which had to be closed and to assess their net liabilities. This was not easy because the same accounting practices were not followed by all banks and the accounts of some of the distressed banks were poor. As of end September 1987, the nonperforming assets of the distressed banks had been estimated at CFAF 179 billion and net liabilities at CFAF 162 billion, with the CFAF 17 billion difference accounting for capital, reserves and provisions (Table 1). By end September 1988, non performing assets had risen to 196 billion, of which CFAF 52 billion on account of the ONCAD debt which had been assumed by the government in 1982. The remaining part of the portfolio consisted of CFAF 58 billion of performing assets plus CFAF 44 billion of current crop credits expected to be repaid at the end of the crop year (Table 2).

3. The sound parts of the balance sheets of the distressed banks (performing assets matched by a corresponding amount of deposits) were to be transferred to the sound banks. The remaining parts of the balance sheets of the distressed banks (which included the non-performing assets) were to be transferred to a factoring company called the "Societe Nationale de Recouvrement" (SNR). The amounts recovered net of the administrative costs of the SNR were to be used to progressively reimburse the deposits transferred to the SNR, starting with depositors holding the lowest amounts.

4. As presented in the President Report of the FSECAL in a highly simplified way, the problem was to get rid of the non performing assets by finding CFAF 196 billion which were to come from three sources: (i) a CFAF 126 billion rescheduling of the debt due by the distressed banks to the BCEAO over 15 year at 3 percent interest rate with a 3 year grace period; (ii) CFAF 38 billion from IDA, France and the US (FSECAL with parallel financing), and; (iii) the CFAF 32 billion expected to be recovered from the non performing assets (Table 3).

Table 1. Senegal: Portfolio Of Six Banks In Difficulties *(as of September, 1987 * in Billion CFAF)*

Banks	BNDS	USB	BIAOS	BSK	ASSUR BANK	SONACA/ SONA-BANQUE	Total
ASSETS AND LIABILITIES							
A1 Cash and correspondents	2	2	2	3	1	1	11
A2 Fixed Assets	3	2	3	1	1	1	11
A3 Performing Credits	44 **	11	22	7	3	5	92
A4 ONCAD	27	13	11	1			52
A5 Non Performing Credits	42	49	18	11	4	3	127
A6 Others	-	5	4	7	-	-	16
ASSETS = LIABILITIES	118	82	66	30	9	10	309
L1 Private Deposits	13	36	42	12	3	3	109
L2 Public Deposits	5 ***	5	4	1	-	-	15
L3,4 Correspondents	3	4	1	3	-	3	14
L5 BCEAO	86	37	9	10	4	3	149
L6 Long Term Borrowing	-	-	-	-	1	1	2
L7 Others	3	-	-	-	-	-	3
L8 Capital, reserve, provisions	8	-	4	4	1	-	17
A5-L8 NET LIABILITIES	34	49	14	7	3	3	110

(*) Simplified accounts of six banks in difficulties, after elimination of a number of offsetting items in the assets and liabilities side.
(**) Of which CFAF 25 billion for crop credits.
(***) Due to government.

Source: Restructuring of the UMOA and BEAC Banking Sectors.
World Bank, Africa Regional Office, Internal Document dated
August 17, 1988, Table 3.

Table 2 : Assets of the Distressed Banks at end September 1988 *(in billion of CFAF)*

Non-performing Assets		196
ONCAD	52	
Others	144	
Performing Assets		102
Current Crop Credits	44	
Others	58	
Total		298

Source: Memo from M. Gillette to E. Jaycox dated March 23, 1989.

Table 3: Financing Foreseen and Actual *(in billion of CFAF)*

	Foreseen	Actual
BCEAO Rescheduling	126	144
External Capital Inflows	38	38
Recovery from bad debts	32	32
Total	196	214

5. By the end of 1994, the amount rescheduled by the BCEAO was CFAF 144 billion instead of CFAF 126 billion. The CFAF 38 billion of external assistance programmed had fully disbursed and the amount recovered had reached the CFAF 32 billion target. However, all government liabilities had not been cleared. The amounts recovered by the SNR had been used to repay holders of frozen deposits in the closed banks up to a threshold which had been progressively raised to CFAF 30 million (equivalent to US$ 60.000) by end January 1995. Those with deposits exceeding this threshold, which included number of business customers, had not yet received any payment.

6. From the records available, it is not possible to draw a full picture of the financial government transactions involved in the restructuring of the banking sector. It is, however, possible to get some idea of the resources and costs which, over the period 1990-94, came in addition to those shown in Tables 2 and 3. This has been attempted by providing notional estimates in Table 4. On the resource side, two items were added: (i) the CFAF 18 billion increase in the amount rescheduled by the BCEAO, and; (ii) a notional estimate of CFAF 17 billion on account of capital, reserves and provisions in the distressed banks, which corresponds to the figure shown in Table 2 under row L8. On the costs side, four items were added and a fifth one was subtracted: (i) CFAF 19 billion was added to service the BCEAO debt rescheduling, which amounted to CFAF 13 billion for interests due during the three year grace period and CFAF 6 billion more for the first principal semi-annual payment due December 1994; (ii) CFAF 14 million was added to provide terminal benefits to bank employees loosing their jobs and compensate banks for taking up deposit liabilities in excess of what was ultimately considered as performing assets; (iii) CFAF 6 billion was added to cover the cost of debt recovery, knowing that SNR's administrative costs amounted to CFAF 4.4 billion from June 1991 to September 1993; (iv) CFAF 2 billion was added as a balancing item to cover other costs, including the servicing of the external debt, and; (v) CFAF 6 billion was subtracted to take into account the saving made in not having reimbursed all depositors. On balance, the CFAF 80 billion received from external capital inflows and recovery from bad loans over the period 1990 through 1994 may, therefore, have been fully used in connection with the restructuring of the banking sector. But the data available do not permit to identify the manner in which these CFAF 80 billion were spent.

Table 4 : National Estimates of Additional Resources and Costs 1990-94 *(in billion of CFAF)*

Resources*		Costs**		
BCEAO Rescheduling	18	Servicing BCEAO Rescheduling		19
Capital, Reserves and Provisions	17	Compensations to Banks	(?)	14
		Cost of Debt Recovery	(?)	+6
		Others	(?)	2
		Deposits remaining unpaid	(?)	-6
Total	35	Total		35

* Resources additional to those shown in column foreseen on Table 3.

** Costs additional to the CFAF 196 billion needed cover the non-performing assets shown in Table 2.

7. The CFAF 144 billion rescheduled with the BCEAO was an advance of the Central Bank to the government, which was equivalent to 62 percent of 1988/89 Senegal's tax revenues, but was not accounted for in monitoring the 20 percent statutory limit. This special treatment was a wise decision because it avoided the complications which resulted from the consolidation of the ONCAD debt in 1982. In order to respect the 20 percent statutory limit, the ONCAD debt assumed by the government was lodged in the commercial banks which became debtors of the BCEAO and creditors from the government. The banks had to service their BCEAO loan regularly, but the government was frequently unable to service its bank loan on schedule, which generated sizable losses for the banks. The accounting became very complicated because the principal of the ONCAD debt was rescheduled and the interests in arrears were not. Consequently, in addition to the CFAF 144 billion owed to the BCEAO on account of the 1990 bank restructuring, the government owed over CFAF 30 billion to the banks on account of the part of the ONCAD debt held by the banks and not rescheduled by the BCEAO.

8. The BCEAO never felt very comfortable with the huge credit on governments over the 20 percent statutory limit it had accumulated through the 1990 restructuring of the banking system. Moreover, the banking system was very liquid in 1994 for three reasons. First, the demand for credit was limited because many operators took a "wait and see" attitude immediately after the devaluation. Second, banks were allowed to invest on the UMOA money market only a very limited amount which was determined by the demand prevailing at the interest rate set by the BCEAO. Third, banks were allowed to keep only very small balances abroad. The BCEAO took advantage of this temporary liquidity to transform its CFAF 450 billion credit on governments into government securities which were offered for sale on the UMOA market in mid 1994 with the BCEAO guarantee.

9. Since the debt resulting from the 15 year rescheduling was to be fully repaid by the year 2006, the new security issued in 1994 had a 12 years maturity. The security carried a 5 percent interest rate tax free and the schedule of principal repayment was identical to the government' repayment schedule (1/24 of the face value every six months). With the government paying a 3 percent interest rate, the BCEAO had to pay a 2 percent interest rate to get the credit out of its books. Since they were virtually no takers for 12 year bonds, the BCEAO announced that it was ready to redeem the bonds on sight at any time, which was a much more attractive proposition. The 12 year bonds became de facto short term notes which

were quickly sold. The BCEAO succeeded in cleaning up its balance sheet but created a confusion between 12 year bonds and short term notes and this confusion needs to be cleared.

10. At one extreme, the BCEAO would lose credibility by suddenly announcing that the notes could not anymore be redeemed before maturing in 2006. At the other extreme, it would not be conceivable for the BCEAO to keep a 5 percent interest rate tax free on sight deposits for the next twelve years. Securities with different and clearly specified maturities will have to be issued promptly and some way of exchanging the old securities for the new will have to be found. Yields differentials between securities with different maturities will have to be market determined.

11. The securitization operation has not modified the financial obligations of the Treasury to the BCEAO. The first payment of the principal became due in December 1994, which raised the yearly debt service from CFAF 4 billion in the grace period to CFAF 16 billion in the following year. In addition, the Treasury has to service the debt due to the banks on account of the part of the ONCAD debt still held by banks.

12. Very much aware of the bump at the end of the BCEAO grace period, the Bank staff had already presented in 1988 proposals to eliminate this bump. An interesting proposal was to invest the Bank credit in securities denominated in dollars or French francs placed in a trust fund which would start disbursing at the end of the BCEAO grace period. This device would have permitted to keep debt service as a steady percentage of government revenue over time. At the same time, the French francs would have been transformed into CFA francs only after the end of the grace period at a better rate in view of the expected devaluation of the CFA franc. As quoted in the October 1988 memo, "the Bank money disbursed today (would benefit from) the full mileage of a devaluation, even if the devaluation occurred later... For example, if the parity was raised from CFAF 50 to CFAF 100 per FF by 1994, only half of the proceeds would be required to repay the BCEAO in accordance with a schedule expressed in CFAF. The other half could be used to finance development programs in Senegal without affecting the debt of the country to the Bank." [1] It is worth noting that the 50 percent devaluation effectively occurred in 1994 but that the proposal made in 1988 was not retained.[2]

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1. Memorandum to management, dated October 26, 1988.

2. See the letters of BCEAO (especially the letter from the Dakar Agency), in Annex C, for a further elucidation of their point of view.

Letters from Borrower and Cofinanciers

1. The draft of the PAR was sent to Government authorities of the Borrower and to other co-financiers. A comment was received from the Treasurer General, the Ministry of Economy, Finance, and Planning, dated June 6, 1995 (Mrs. Aissatou Ndiaye Niang). Two letters containing comments of a co-financier, the BCEAO, were also received, the first, from the Central Director for Credit and Bank Supervision, dated June 7, 1995 (Mr. L. Lawson) and from the Acting National Director for the Dakar Agency of BCEAO, dated June 8, 1995 (Mr. Seyni Ndiaye).

2. The Borrower's specific comments on SAL IV were in reference to the text of the PCR, which was attached to the draft PAR. There were no comments on the FSECAL. Hence, there were no comments sent by the Borrower on the PAR.

3. The comments from the BCEAO were helpful in clarifying factual issues. As a result, specific changes were made in paragraphs 3.12 and 3.19 to deal with the comments of the BCEAO. Some minor changes designed to improve clarity of exposition were also added in response to their comments.

4. The aforementioned comments are all reproduced in full in this annex.

OS/AS
REPUBLIQUE DU SENEGAL
MINISTERE DE L'ECONOMIE
DES FINANCES ET DU PLAN

DIRECTION DU TRESOR ET DE
LA COMPTABILITE PUBLIQUE

BUREAU DE LA STATISTIQUE

N° 0 1 0 6 2

1995

MADAME LE TRESORIER GENERAL
DIRECTEUR DU TRESOR ET DE LA
COMPTABILITE PUBLIQUE

O B J E T : Mémorandum et rapport d'achèvement pas IV et PASF.
référence : V/L du 10 mai 1995.

Monsieur le Chef de Division,

Comme suite à votre lettre citée en référence, je vous prie de trouver ci-après mes observations relatives au rapport d'évaluation rétrospective des projets - quatrième crédit à l'ajustement structurel (PAS IV crédit 2090 S E) et le Programme d'ajustement du secteur financier(crédit 2077 S E)

MONSIEUR MANUEL PENALVER
CHEF DE DIVISION POLITIQUES ECONOMIQUES, INDUSTRIES ET FINANCES
DEPARTEMENT DE L'EVALUATION OU RETROSPECTIVES DES DES OPERATIONS.
BANQUE INTERNATIONALE POUR LA RECONSTRUCTION ET LE DEVELOPPEMENT.
(B I R D)

.../...

1) Quatrième Crédit à l'ajustement structurel.

- Page 5 : le rapport mentionne un cumul des arriérés internes et externe de 185 millions de FCFA.
  Le montant était en réalité de 174, 2 milliards CFA pour les arriérés externes et 32, 0 milliards CFA pour les arriérés internes.

- Page 7 : le rapport parle d'inefficacité de l'administration fiscale ayant limité les avantages budgétaire de la réforme du système fiscal. Il conviendrait d'expliciter davantage cette affirmation pour permettre de mieux cerner les points d'inefficacité que les auteurs du rapport ont identifiés.

2) Programme d'ajustement du secteur financier.

Le rapport n'appelle de ma part aucune observation particulière.

Veuillez agréer, Monsieur le Chef de Division, les assurances de ma considération distinguée.

Madame
Aïssatou NDiaye NIANG

BANQUE CENTRALE
DES ÉTATS DE L'AFRIQUE DE L'OUEST

AVENUE ABDOULAYE FADIGA B P 3108-DAKAR

TELEX BCEAO 21530 SG - 21527 SG

TEL. . 23.16 15 - 23.10.42

Dakar, le 7 JUIN 1995

CM

DIRECTION CENTRALE DU CREDIT ET
DE LA SURVEILLANCE BANCAIRE

50D24295

TRANSMISSION PAR TELECOPIE n° 532

FAX N° 1 (202) 522 3124

EXPEDITEUR : MONSIEUR LE DIRECTEUR CENTRAL DU CREDIT ET DE LA SURVEILLANCE BANCAIRE

DESTINATAIRE : MONSIEUR MANUEL PENALVER - CHEF DE DIVISION POLITIQUES ECONOMIQUES, INDUSTRIE ET FINANCE DEPARTEMENT DE L'EVALUATION RETROSPECTIVE DES PROJETS - BANQUE MONDIALE

OBJET : OBSERVATIONS SUR LE RAPPORT D'EVALUATION PROSPECTIVE DES PROJETS PAS IV ET CASF DE LA REPUBLIQUE DU SENEGAL

NOMBRE DE PAGES : TROIS (4) Y COMPRIS CELLE-CI.

PAR DELEGATION DU GOUVERNEUR
LE DIRECTEUR CENTRAL DU CREDIT
ET DE LA SURVEILLANCE BANCAIRE
PAR INTERIM

L. LAWSON

BANQUE CENTRALE
DES ÉTATS DE L'AFRIQUE DE L'OUEST

AVENUE ABDOULAYE FADIGA B.P. 3108 - DAKAR

TELEX BCEAO 21530 SG - 21527 SG

TEL. : 23.16.15 - 23 10.42

DIRECTION CENTRALE DU CREDIT ET
DE LA SURVEILLANCE BANCAIRE

50D24295

"N"

Dakar, le

Annex C

OBJET : Rapport d'évaluation prospective des projets PAS IV et CASF de la République du Sénégal.

Monsieur,

Par courrier en date du 10 mai 1995, vous avez bien voulu soumettre au Gouverneur de la Banque Centrale des Etats de l'Afrique de l'Ouest, le projet de rapport d'évaluation prospective du Quatrième Crédit à l'Ajustement Structurel (PAS IV) et du Programme d'Ajustement du Secteur Financier (CASF) pour la République du Sénégal.

L'examen de ce document appelle de notre part les principales observations ci-après.

S'agissant des réformes de la politique de la monnaie et du crédit initiées au sein de l'UMOA, certaines affirmations faites aux points 15 (pages 11 et 12 du document) ne sont pas justifiées.

Il convient en premier lieu de souligner que la limitation des concours consentis par la Banque Centrale à chaque Etat membre de l'Union a toujours été fixée à 20% des dernières recettes fiscales connues, la réforme n'a donc apporté aucune nouveauté sur ce point.

.../...

Monsieur Manuel PENALVER
Chef de la Division,
Politiques Economiques, Industrie et Finance
Département de l'évaluation rétrospective
des projets Banque Mondiale
1818 H Street, N.W.
Washington, DC 20433
U.S.A.

Par ailleurs, en matière de surveillance des banques, il n'est pas exact d'affirmer que seule la BCEAO est habilitée à "procéder à des audits et à contrôler les banques dans tous les pays membres". S'il est vrai qu'il revient exclusivement à la Banque Centrale d'arrêter les règles comptables et les normes prudentielles qui s'imposent aux établissements de crédit, l'Institut d'émission partage la charge du contrôle de ces établissements avec, d'une part, la Commission Bancaire de l'UMOA, et d'autre part, les auditeurs externes (Commissaires aux comptes, contrôle financier, inspection générale d'Etat, etc...).

En ce qui concerne la politique des taux d'intérêt, il importe de préciser que les taux d'escompte normal et préférentiel ont été remplacés par un taux d'escompte unique appliqué aux interventions de la Banque Centrale. Le guichet prioritaire de refinancement des établissements de crédit et de recyclage de leurs ressources excédentaires est à présent constitué par le marché monétaire dont le taux est déterminé sur la base des résultats des adjudications périodiques et résulte donc des offres et demandes exprimées sur le marché.

De plus, les conditions de banque ont été largement libéralisées (sauf le taux servi à la petite épargne) depuis le 1er octobre 1993, avec la suppression de plusieurs taux créditeurs planchers et le déplafonnement des conditions débitrices de banque. Il ne paraît donc pas juste d'avancer que la libéralisation "n'est pas allée suffisamment loin". De même, l'assertion relative à la non libéralisation du marché monétaire, à la titrisation des concours consolidés (page 35) et au renforcement des mesures prises par la BCEAO pour accroître l'efficacité de l'intermédiation financière, devrait-elle être étayée ou mieux argumentée.

Enfin, concernant la restructuration du système bancaire sénégalais, il paraît exagéré d'affirmer que la CNCAS est techniquement en situation de faillite. Cette banque a fait l'objet de vérifications périodiques de la part de la Commission Bancaire de l'UMOA et d'un suivi strict par les Autorités monétaires.

.../...

Les mesures visant au rétablissement de son équilibre financier sont en cours d'application, l'Etat sénégalais ayant déjà versé à ladite banque à titre de dotation et de contribution à l'augmentation du capital, le montant cumulé de 1,2 milliard. Les dispositions complémentaires permettant de restaurer définitivement la solvabilité de la Banque seront appliquées au cours de cet exercice. A ce jour, la CNCAS respecte l'essentiel des ratios prudentiels en vigueur dans la zone.

Nous sommes dans l'attente de la version finale de votre rapport.

En espérant que les remarques qui précèdent retiendront votre attention, nous vous prions de croire, Monsieur, à l'assurance de notre parfaite considération.

Par délégation du Gouverneur
Le Directeur Central du Crédit
et de la Surveillance Bancaire
par intérim

L. LAWSON

Annex C

BANQUE CENTRALE
DES ÉTATS DE L'AFRIQUE DE L'OUEST

Agence de DAKAR
B.P. 3159 - Tél. : 22.53.84

LE DIRECTEUR NATIONAL

Dakar, le [illegible] 3054

Monsieur Manuel PENALVER
Chef de Division
Politiques Economiques,
Industrie et Finance
Département de l'évaluation
rétrospective des opérations
Banque Mondiale

1818 H Street N.W.

WASHINGTON DC 20433

U S A

REFERENCE : Votre lettre du 10/05/1995

Monsieur,

Faisant suite à votre correspondance en référence, nous vous faisons tenir ci-joint les observations que suscite de notre part, le rapport d'évaluation rétrospective du quatrième crédit à l'ajustement structurel (PAS IV, Crédit 2090-SE) et du programme d'ajustement du secteur financier (Crédit 2077-SE) élaboré par la Banque Mondiale.

Veuillez agréer, Monsieur, l'assurance de notre considération distinguée.

Seyni NDIAYE
[illegible]
[illegible]

P.J. : 1

OBSERVATIONS SUR LE RAPPORT D'EVALUATION RETROSPECTIVE DU QUATRIEME CREDIT A L'AJUSTEMENT STRUCTUREL (PAS IV) ET DU PROGRAMME D'AJUSTEMENT DU SECTEUR FINANCIER

I - OBSERVATIONS SUR LE RAPPORT D'ACHEVEMENT DU QUATRIEME CREDIT A L'AJUSTEMENT STRUCTUREL

PAGE III DU RESUME

Il est indiqué dans le rapport que "l'Assemblée Nationale n'a jamais entériné la révision du Code du Travail".

Il y aurait lieu de nuancer cette affirmation en précisant que si durant l'exécution du PAS IV, l'Assemblée n'avait pas adopté le nouveau code du travail, la version révisée de certaines dispositions pertinentes du code a été adoptée un peu plus tard.

En effet l'article 47 du code du travail a été modifié par la loi n° 94-80 du 8 Décembre 1994. Au terme de cette modification, le licenciement pour motif économique peut être désormais entrepris sans l'autorisation préalable de l'Inspecteur du Travail.

PAGE IV DU RESUME

Le rapport souligne que "dans un souci de stabilisation financiere et d'efficacité, il faudra que se poursuive l'action visant à accroître le rythme des départs au sein de la fonction publique".

A notre avis, il conviendrait, avant de poursuivre le mouvement des départs d'agents de la fonction publique, de procéder à l'évaluation approfondie des mesures déjà mises en oeuvre dans ce domaine, en vue d'en apprécier les réelles incidences et d'en tirer tous les enseignements nécessaires.

PAGE 4 (1er Paragraphe)

Certains termes du rapport semblent peu compréhensibles et mériteraient d'être reprécisés notamment "les crédits aux cultures forcées".

PAGE 8 (3ème Paragraphe)

En lieu et place des estimations de masse salariale pour l'année 1992 qui est déjà révolue, il aurait été plus indiqué de prendre les réalisations effectives.

PAGE 14

S'agissant de la coordination du programme, le rapport indique que "le Gouvernement a souvent reçu ce qu'il a interprêté comme des messages contradictoires des divers bailleurs de fonds, et a excellé pour ce qui est de les faire jouer les uns contre les autres". Une telle appréciation qui semble traduire un jugement de valeur mériterait d'être explicitée et étayée d'exemples précis.

Annex C

BANQUE CENTRALE
DES ÉTATS DE L'AFRIQUE DE L'OUEST

Agence de DAKAR
B.P 3159 - Tél . 22.53.84

LE DIRECTEUR NATIONAL

Dakar, le 3664

Monsieur Manuel PENALVER
Chef de Division
Politiques Economiques,
Industrie et Finance
Département de l'évaluation
rétrospective des opérations
Banque Mondiale

1818 H Street N.W.

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II - OBSERVATIONS SUR LE RAPPORT D'ACHEVEMENT DU PROGRAMME D'AJUSTEMENT DU SECTEUR FINANCIER

PAGES III ET IV DU RESUME

- REFORME DE LA POLITIQUE DE LA MONNAIE ET DU CREDIT

Le rapport fait état de retards dans l'application des réformes ci-après prévues dans le cadre de la rénovation de la politique de la monnaie et du crédit : libéralisation des taux, mise en place des réserves obligatoires, renforcement des règles de financement de la commercialisation agricole. Il conviendrait de préciser à cet égard que le programme des réformes envisagées a été entièrement réalisé, par étapes successives, entre Octobre 1989 et Octobre 1993 comme initialement programmé.

PAGE V DU RESUME

- PROMULGATION DE LA LOI BANCAIRE

La loi bancaire est entrée en vigueur en Juin 1990 et non en Juin 1992. Les textes relatifs à la Commission Bancaire ont été adoptés en même temps. Cette institution est devenue opérationnelle dès le second semestre 1990.

- RESTRUCTURATION DU SYSTEME BANCAIRE

Les activités de la Banque Islamque du Sénégal sont suspendues par arrêté depuis Décembre 1989. Contrairement à ce qui est indiqué à la page V du résumé, elle n'a pas repris ses activités.

- RESPECT DES NORMES PRUDENTIELLES PAR LES BANQUES

Le rapport note, qu'au début de l'année 1994, les normes prudentielles n'étaient pas respectées généralement par les banques et que la constitution d'un secteur bancaire solide n'était pas encore assurée.

A cet égard, il conviendrait d'observer que la Commission Bancaire exerce un suivi rapproché de l'évolution de la situation individuelle de chaque établissement de crédit. Ainsi, sur les trois dernières années, les banques ont enregistré dans l'ensemble une amélioration de leur situation financière, ce qui leur permet de respecter les règles de gestion prudentielles.

A noter par ailleurs que le Plan Comptable Bancaire devra être appliqué à partir de Janvier 1996.

PAGE VII DU RESUME

- TRAITEMENT DU REFINANCEMENT DE LA B.C.E.A.O.

Les engagements des banques en restructuration vis-à-vis de la Banque Centrale ayant fait l'objet d'une consolidation ont porté sur 143,7 Milliards (au lieu de 126,5 Mds).

Ce montant a fait l'objet d'une titrisation à compter de Juillet 1994, sur la base d'une convention signée avec l'Etat du Sénégal. Les principales caractéristiques des titres sont les suivantes :

. nature et forme des titres : titres dématérialisés, négociables et cessibles dans tous les Etats de l'UMOA ;
. taux : 5 % l'an ;
. durée de vie : 12 ans ;
. fiscalité : intérêts et plus values exonérés d'impôts ;
. valeur faciale : 50.000.000 F Cfa.

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PAGE VIII DU RESUME

- PROMOTION DES ACTIVITES BANCAIRES MUTUALISTES

Le projet de loi régissant l'activité bancaire mutualiste a été adopté au Sénégal le 5 Janvier 1995.

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IMAGING

Report No. 14318
Type: PPAR