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Adjustment Performance in Senegal

A Review of the Design, Implementation and Outcome Since 1980

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CFAF/US$

Year	*Annual Average*	*End Period*
1985	449.3	378.1
1986	346.3	322.8
1987	300.5	267.0
1988	297.9	303.0
1989	319.0	289.4
1990	272.3	256.5
1991	282.1	259.0
1992 (Nov)	264.2	271.4

Fiscal Year for Government of Senegal

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

Acronyms

AGETIP	Agence d'Exécution des Travaux d'Intérêt Public contre le Sous-Emploi (Public Works and Employment Project)
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (West Africa Central Bank)
BIAOS	Banque Internationale pour l'Afrique Occidentale - Sénégal (Commercial Bank)
BICIS	Banque Internationale pour le Commerce et l'Industrie du Sénégal (Commercial Bank)
BNDS	Banque Nationale du Développement Sénégalaise (National Development Bank of Senegal)
BSK	Banque Senegalo-kowitienne (Commercial Bank)
CFA	Communauté Financière Africaine (African Financial Community)
CNCAS	Caisse Nationale de Crédit Agricole du Sénégal (Agricultural Credit Bank of Senegal)
CNTS	Confédération Nationale des Travailleurs Sénégalais
CP	Contrat-plan (Contract Plan)
CPSP	Caisse de Péréquation et de Stabilisation des Prix
DIRE	Délégation à l'Insertion, à la Réinsertion et à l'Emploi
DRSP	Délégation à la Réforme du Secteur Parapublic
EFF	Extended Fund Facility
ESAF	Extended Structural Adjustment Facility
FSECAL	Financial Sector Adjustment Loan
IDA	International Development Association
IMF	International Monetary Fund
NPI	Nouvelle Politique Industrielle
ODA	Official Development Assistance
OED	Operations Evaluation Department
ONCAD	Office National de Coopération et d'Assistance pour le Développement
PAGD	Projet à l'Appui à la Gestion du Développement (Development Management Project)
PAML	Medium-Term Economic and Financial Rehabilitation Program
PE(s)	Public Enterprise(s)
PFP	Policy Framework Paper
PIP	Public Investment Program
PREF	Plan à Moyen Terme de Redressement Economique et Financier (Medium-term Recovery Plan)
QR(s)	Quantitative Restriction(s)
REER	Real Effective Exchange Rate
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan (Credit)
SECAL	Sector Adjustment Loan (Credit)
SMIG	Salaire minimum interprofessionnel garanti (Minimum Wage)
SOFISEDIT	Société Financière Sénégalais pour le Développement de l'Industrie et du Tourisme
SPA	Special Program of Assistance
SSA	Sub-Saharan Africa
TSECAL	Transport Sector Adjustment Loan
UMOA	Union Monétaire Ouest-Africaine (West African Monetary Union)
USB	Union Sénégalaise de Banque (Commercial Bank)

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Introduction

1. This study evaluates Senegal's adjustment performance since 1980, the year Senegal launched its first adjustment program. In the first half of the decade (1980-85) little structural adjustment took place and this is referred to as the stabilization or pre-adjustment period. The second half of the decade witnessed real structural changes in the economy, and is referred to as the period of adjustment. The evaluation covers the government's reform program in its entirety, and is not limited to Bank-supported lending operations. The report focuses on the various steps of the adjustment process—from design to implementation—and on macroeconomic and sector adjustment impacts. The methodology used to evaluate the impact of adjustment on economic performance is the "before and after" approach.

The Financial Crisis and Government's Response

2. Senegal is a small, semi-arid Sahelian nation with a population of 7.4 million, predominantly rural, and with limited natural resource endowments. At the current exchange rate, the 1990 income per capita of US$710 places Senegal at the bottom of the lower-middle-income economies. At independence in 1960, Senegal inherited a relatively well-developed physical and social infrastructure due to the prominent role Dakar played in this large French West African colony. Senegal has enjoyed a high profile in African affairs because of its lively democratic system, and its highly vocal press. This has helped Senegal mobilize substantial external resources over the years. Senegal has had a long tradition of "African socialism" resulting in widespread government participation in the real economy and regulatory controls of the private sector. Traditional values and religious ties still play an important role in social, economic and political spheres.

3. In the first two decades following independence, Senegal's economic performance was poor, even by Sub-Saharan Africa standards. Senegal experienced the lowest GDP growth rate of any African state not affected by war or civil strife. GDP grew on average by 2.1% in real terms per annum, compared to a population growth rate of 2.9%. At the end of this period, all key economic indicators reflected serious financial and structural imbalances: the fiscal deficit (on a commitment basis and excluding external grants) stood at 12.5% of GDP, the current account deficit reached 25.7% of GDP, the inflation rate soared to 12%, the terms of trade index dropped by 12% from its 1975 level, savings were negative, and total consumption exceeded GDP. The total stock of debt represented over two-thirds of GDP and the debt service (before rescheduling) represented nearly one-fifth of total exports of GNFS.

4. The need for structural economic changes in Senegal can be traced to the early years of independence when Senegal lost its large French West African market. The key economic indicators pointed to macroeconomic imbalances in as early as 1966, when groundnut exports suddenly lost their preferential French market and had to compete in the world market. Government was slow to recognize the need for structural changes. During the short-lived commodity boom in the second half of the 1970s, the government responded by borrowing heavily on commercial terms, expecting to return to more favorable terms of trade.

5. In the late 1970s, the government began to recognize the shortcomings of its ambitious development plans and nationalization policies, and in December 1979, it announced its medium-term recovery plan for 1980-84. This program was designed in close collaboration with the World Bank and the IMF, and sought to stabilize the financial situation, raise public savings, increase investment in the productive sectors, liberalize trade, and reduce the state role in the economy. This first attempt at stabilizing the financial situation and creating the basis for growth did not, however, yield satisfactory results because the reforms were only partially carried out. Renewed efforts were launched in 1984 with the organization of the first Consultative Group (CG) meeting for Senegal, and with the endorsement of the donors of the second phase of the adjustment program for 1985-92. The government's adjustment effort was supported since 1980 by six Bank adjustment and sector operations, and by a series of IMF arrangements, including a three-year Extended Structural Adjustment Facility (ESAF). A total of five Policy Framework Papers (PFPs) were approved by the Bank and the IMF Boards between 1986-91.

6. Senegal has been a recipient country of the Special Program of Assistance (SPA) since its establishment in 1987. The adjustment program in Senegal has been generously supported by the donor community, either directly or as co-financiers of Bank/IMF operations. In 1989, Senegal per capita ODA reached US$91, nearly three times the average for SSA. Between 1984 and 1990, adjustment support to Senegal accounted for half of total net disbursement of official development assistance (ODA) which, in turn, accounted for 4.5% of the total amount received by Sub-Saharan Africa. This support and assistance was provided despite the small weight of Senegal in SSA as measured by the shares of its population (1.5%) and GNP (0.3%).

Design and Sequencing of the Reform Program

7. The design of Senegal's adjustment program lacks, as do programs in CFA adjusting countries, the use of an important policy instrument, the exchange rate. Not having the exchange rate as one of the major adjustment tools had rendered the design of the program complicated and its full implementation difficult to guarantee. The deflationary policy that Senegal adopted relied more on demand management, and less on supply incentives.

8. Apart from the exchange rate policy issue, the design of the adjustment program components has improved over time as Senegal gained more experience in

adjustment. There has been a shift from complex macroeconomic adjustment operations to sector-specific adjustment operations. A series of specific and well focused (rather than fewer and more complex) operations was chosen by Senegal to avoid overburdening its administrative capacity. This was achieved by dividing the wide range of policy changes needed into manageable packages, or SECALs—banking, agriculture, human resources, and transport—which were supported by the Bank and key donors. All but the agricultural operation are currently under implementation.

9. Chronologically, the adjustment program focussed on macroeconomic stabilization, agricultural marketing liberalization, international and domestic trade liberalization, public sector management, including public enterprises and civil service, wage and labor market deregulation, population growth, banking sector restructuring, and transport sector rehabilitation. The sequencing and coherence between these various components of the reform program have been closely monitored through the PFP process. Had the human resources sector, particularly education, been fully addressed and the exchange rate been used as a policy instrument to improve the competitiveness of the economy, the adjustment program design would have been comprehensive.

10. The sequencing of the reforms has not been without serious flaws. In addition to the lack of real exchange rate policy, the decision to proceed with the liberalization of the external trade before establishing an effective tax administration, eliminating labor rigidities, and reducing the cost of production, reflects insufficient consideration given to the sequencing of reforms. Similarly, the decision to proceed with the civil service departure program before establishing a robust database on wages and civil servants, and a monitoring system, also reflects a deficiency in the sequencing of reforms. The banking sector reform, although well implemented, should have been carried out earlier, had the severity of the crisis been known. Finally, the privatization of public enterprises ought to have been initiated once a good regulatory and incentives framework was in place.

Government Ownership

11. Government ownership of the reform program seems to depend on three key elements: the degree to which there is consensus-building among the interest groups, the strength of institutions in charge of formulating and coordinating the reform program, and the nature of the reforms themselves—the more biting these are, the more reluctant government is to implement them fully. Over time, policy measures tend to be discussed widely with concerned parties, and publicly debated. A case in point is the revision of the labor code which involved extensive discussion between the government, the labor unions and the employers unions, and, more recently, the discussion of the higher education sector. Another indicator of increased government ownership is the fact that the formulation of recent adjustment programs has taken more time than before, largely to ensure that concerned parties were behind the reforms. Notwithstanding this effort, the involvement of the private sector in the design of the reform program has been far from satisfactory.

12. Concerning the government's commitment to the reform program, the momentum seems to have been lost following the 1988 election when the technocrats' influence was weakened as a result of political pressure. During the period 1986-88, a core team of technocrats was instrumental in the implementation of reforms, and in the progress of economic stabilization and structural reforms. During that period, weekly meetings were chaired by the Finance Minister to monitor the implementation of the adjustment program and to take corrective measures if needed. Senegal was least successful in its reform implementation where vested interest was strong and leadership was weak. This is the case of the agricultural pricing reform, the privatization of the groundnut marketing and processing sector, the liberalization of the labor market, and the containment of the cost in the higher education sector. The lack of agreement between the government and the key donors, including the Bank, on the agricultural SECAL, which has been under preparation for over three years, is a good example reflecting the point discussed above. To deal with the government's weak commitment to the adjustment spirit—often, government implemented the reforms in form rather than in substance—recent adjustment operations supported by the Bank put heavy emphasis on up-front conditionality.

Implementation of the Reform Program

13. Overall, Senegal's performance in implementing its adjustment program has been mixed. This evaluation is carried out by major policy categories and by major sectors of the economy. Senegal performed well in the areas of monetary and credit policy, pricing and trade policy, and financial policy—the latter being an area where Senegal was one of the first countries in the CFA zone to undertake such a far reaching reform. Two caveats are in order here. First, government began in recent years reversing its import protection policy, and second, government was not aggressive in recovering the banking sector bad debts owing to its hesitancy to pursue the large debtors. The unfinished reform agenda is mainly in monetary policy where there is a need to shift to a market-based system of money and credit management.

14. Senegal's performance was exceptionally poor in real exchange rate policy, and labor and wage policy, all of which are critical to improving the country's competitiveness in the world market. The real exchange rate has appreciated by at least 25% in foreign currency terms during the adjustment period. The labor market has been only marginally liberalized (liberalization of hiring practices, and partial relaxation of the constraints on the use of temporary employment contracts). A new draft labor code, which eliminates the rigidities in the labor market, has been prepared by government in close consultation with the social partners (labor unions and the employers' association) but has yet to be enacted into law. As a result of the persistence of the rigidities in the labor market, labor costs remain a serious impediment to investment, growth and competitiveness.

15. On the fiscal front, government implemented a wide range of tax reforms designed to simplify the tax structure (namely by introducing a global personal income tax and a single tax on corporate income), modernized the tax administration system, and

mobilized resources by widening the scope of the value-added tax. Government also introduced expenditure control measures, particularly in the area of public investment. Government tended, however, to focus on short-term financial considerations, such as reliance on windfall revenue from the petroleum imports and the introduction of numerous, ad-hoc tax measures rather than on structural issues. Revenue mobilization and resource allocation were done at the expense of competitiveness and long-term growth. In expenditures, government reduced investment (below appropriate levels for replacement) and allocations to O&M, but protected wages and salaries, thus jeopardizing future growth and employment. In sum, the key fiscal reforms left to be implemented are strengthening the tax administration, particularly customs, reducing the wage bill, and controlling transfers to PEs.

16. A sector review of the implementation of the reforms reveals also a mixed performance. The implementation of the agriculture reform program has been limited to the liberalization of domestic trade, price decontrols of most commodities, and elimination of input subsidies. On the other hand, rice import controls remain a major issue and producer prices for cash crops, namely groundnuts and cotton, continue to have no direct relationship to world prices. The liberalization of the domestic market for most commodities have been necessary conditions although not sufficient to turn the agricultural production around. The overvaluation of the real exchange rate, and unfavorable terms of trade for groundnut oil and cotton, remain major obstacles to agricultural development. A comprehensive reform program addressing the groundnuts, cotton, and rice sectors is urgently needed.

17. The implementation of the industrial reform program has been very limited. What was supposed to have been a comprehensive and well-sequenced program turned out to be only partially implemented. The policies effectively implemented were the liberalization of domestic and international trade, and the decontrol of most domestic prices. However, in recent years, government started reversing its trade policy primarily for fiscal reasons, but also to protect industry and to compensate for the appreciation of the real exchange rate. Crucial reforms such as labor deregulation, improvement in the administrative environment, reduction in the cost of energy, and export subsidy schemes were not only partially implemented, and but also implemented late in the adjustment process. Among the measures implemented to improve the regulatory environment were the revision of the investment code and the simplification of the investment procedures. The industrial program, which was conceived as a comprehensive reform program, was finally reduced to price and trade liberalization.

18. The implementation of the PE sector reforms has been uneven. Government liquidated 21 PEs and privatized, totally or partially, 26 others, together representing 42% of the total number of PEs. These PEs represent only 19% and 11%, respectively in terms of assets and government equity. Divestiture, which is nearly complete in the financial sector, is far from being so in the non-financial PEs. The progress made in the divestiture program is very recent—three-quarters of the PEs privatized and liquidated, which translated into about 80% of their assets and government equity have been achieved since 1989. A total of ten PEs (out of 27 planned) have been

restructured and rehabilitated. And, a total of 24 (out of 44 planned) contract plans and "letters of mission" have been signed between government and selected PEs. The use of contract plans has improved transparency and accountability of the two contracting parties--not a small achievement--but has encountered major problems in its financial implications. On the financial front, the government implemented the reforms in "letter but not in spirit." The government reduced direct subsides to PEs but the benefit of this reform was defeated when the PEs circuitously sought financing through commercial overdrafts and government guarantees. This loophole was corrected in 1990 by prohibiting this type of financing; this in turn was defeated by the PEs through the accumulation of arrears. The settlement of these arrears between government and PEs has been carried out twice in a comprehensive manner, and the problem seems to be less acute now because of the introduction of concurrent preventive measures.

19. In the human resources sector (education and health), only a limited number of reforms have been implemented. The unfinished reform agenda includes a reduction in the imbalances between primary education and higher education, and between basic health care and a curative health system. Reform programs for higher education and health are currently under active consideration by the government.

20. Figure 1 presents the major reforms undertaken during the period 1980-91 and those not yet undertaken. The pending reforms needed to improve the competitiveness and the allocation of resources include the depreciation of the real exchange rate, the adoption of indirect instruments of monetary control, the elimination of rigidities in the labor market, the improvement in the legal and administrative framework, and the control of the wage bill. A comprehensive reform program addressing the groundnuts, cotton, and rice subsectors is urgently needed. Finally, major reforms are also needed to develop the human capital in Senegal.

Macroeconomic Outcomes of the Adjustment

21. Overall, Senegal has achieved mixed macroeconomic results during the adjustment period. Furthermore, where positive results were achieved, these do not compare favorably with the expected results of adjustment, as envisaged in five consecutive PFPs. The key factors explaining this mixed performance are the poor reform implementation, real exchange rate appreciation, and external shocks (such as weather conditions). This having been said, Senegal is now better off than it was in 1980, but it is still faced with policy distortions which seriously undermine the country's longer term prospects.

22. Senegal reduced by half its macroeconomic imbalances during the 1980s, especially since 1983, through demand compression in private consumption, investment, and expenditures on priority areas. This achievement, particularly in the fiscal area, remains fragile, and, unless additional structural reforms in civil service and tax collections are introduced, it will not be sustained and may lead to a deterioration in long-term growth of the economy and in the competitiveness of Senegal. As a result of

Figure 1: Implementation Status of Major Policy Reforms in Senegal, 1980-91

	80	82	84	86	88	90	91	IS
Fiscal Policy								
Rationalize tax system				XXXXXXXX		XXX	XXXX	1
Improve tax administration						XXXX		2
Introduce cost recovery								3
Control wage bill				XXXXXXXXXXXX		////////		2
Improve public investment programming	XX			XXXXXXXXXXXXXXXXXXXXXXXX				4
Reduce PE subsidy				XXXXXXXXXXXXXXXXXXXXXXXX				2
Improve debt management	XX			XXXXXXXXXXXXXXXXXXXXXXXX				1
Monetary and Financial Policies								
Adopt flexible int. rate & credit policy						XXXX		1
Establish bank supervison body						XXXX		1
Restructure the banking sector		XX			XXXXXXXXXXXXX			1
Develop capital market								3
Shift to indirect instru. of monetary control								3
Real Exchange Rate Policy								
Adopt deflationary policy								3
Domestic Prices and Trade Liberalization								
Decontrol prices	XX				XXXX	XX	X	1a/
Liberalize input & cereals output marketing	XX			XXXXXXXXXXXX				1b/
Reduce input subsidy	XX			XXXXXXXXXXXX				1
Eliminate monopolies (special agreements)								3
Reduce cost of production							XXXX	2
Labor Market Liberalization								
Deregulate wage setting system								3
Deregulate labor market					XX	XX		2
External Trade Liberalization								
Eliminate non-tariff restrictions				XXXXXXXX		//////////		1c/
Reduce tariff categories and levels				XXXXXXXX		//////////		1c/
Improve export incentives	XX			XXXX		XXXX////		2
PEs Reform Program								
Restructure key enterprises				XXXXXXXXXXXXXXXXXXXX				1
Implement divestiture program	XX				XX	XXXXXXXX		4
Rationalize supervision system				XXXX		XXXX		1
Use performance contracts								2
Enabling Environment Reform								
Simplify legal & admin. procedures								3
Improve investment incentives					XXXX	XXXX		1
Reform civil service						XXXXXX		2
Other reforms								
Population control					XX			2
Reform education sector								3
Reform health sector								3
Reform rice, cotton, & groundnut sectors								3
Adopt social safety net measures					XXXX	XXXX		2

XX Policy Implementation.
/// Policy Reversal.

IS= Implementation Status.
1 = Implemented.
2 = Not effectively implemented.
3 = Not implemented.
4 = Continuous.

a/ Prices on 14 items remain controlled.
b/ Rice market remains controlled.
c/ Gradual policy reversal.

Source: SA Table 5.

the lack of significant real progress on the fiscal side, Senegal continues to rely on large petroleum revenues (to the tune of 22% of tax revenue) and large external sources to finance its budgetary deficit. Improvement in the current account of the balance of payments was largely due to a sharp decline in prices since 1986 for the country's major import items, petroleum products and rice. Export performance has been erratic with an overall disappointing trend.

23. Competitiveness of the Senegalese economy has not improved during the adjustment period. The real exchange rate has significantly appreciated and the cost of production has remained high. Furthermore, the frequent changes in tariff and taxation policies and the distortions entailed, together with the poor implementation of export subsidies, send the wrong signals to an already weakened and uncompetitive industrial sector. The Gambia's rapid trade liberalization, combined with its unique geographic location vis-à-vis Senegal, has further exposed the Senegalese manufacturing sector to stiff competition.

24. The average annual economic growth rate in the second half of the 1980s, a period of structural adjustment, was 3.5% (compared to 2.2% in the first half of the decade) which compares favorably with the past trend, and a population growth rate ranging between 2.9% and 3.2%. This relatively favorable growth should be cautiously interpreted given the poor data quality of national accounts, particularly for the period under adjustment. In spite of its relatively small share of GDP, agriculture, whose performance was largely determined by weather conditions, continued to have a major impact on overall growth through the multiplier effect on the rest of the economy. While there has been some improvement in the investment allocations, there has been little diversification in the structure of the economy. Furthermore, the level of investment has dropped to below the minimum level for preserving existing infrastructural assets in Senegal.

Sector Outcomes of the Adjustment

25. During the structural adjustment period 1986-90, **agricultural** production registered a significant revival from the depressed level following the severe drought of 1983-84. The increase in production happened largely due to favorable weather conditions, in spite of a drop in cultivated land. While there is indication that internal terms of trade have slightly shifted in favor of agriculture and away from industry, this shift should be interpreted with caution as it is not statistically robust. Production of food crops increased faster than cash crops, largely as a result of internal trade liberalization and producer price differentials in favor of food crops. Because of both good harvests and favorable domestic cereal prices, cereal imports (rice and wheat) dropped significantly during the adjustment period. Indicators of production incentives and efficiency show that among the cereals, though millet and maize have a considerably higher comparative advantage than rice, they have barely adequate protection to sustain production for local consumption. Far too many resources have been devoted to irrigated rice production, a sector which has yet to be significantly reformed. Of the cash crops, cotton had a higher comparative advantage than groundnuts but received barely enough

protection to maintain production. The prospects of the agricultural sector remain dependent on the real exchange rate policy, the terms of trade for cash crops, and the climate conditions.

26. Regarding the **manufacturing sector**, production increased in real terms faster during the adjustment period than during pre-adjustment, owing to a vibrant informal sector. There has been a demand shift from formal to informal sectors as a result of trade liberalization combined with the lack of progress on the real exchange rate depreciation, energy cost reduction, and labor and wage liberalization. Liberalization policies have led to serious difficulties for large-scale firms that had previously benefitted from protection against imports and local competition. The large industries that did well were mining, chemical, and energy—industries that generally were not directly affected by the reforms. The reform program led to a major restructuring of the manufacturing sector. It resulted in both the establishment of new firms—mainly small-scale agro-industries, oriented towards exports—and the closing of non-performing ones. Small-scale enterprises are more dynamic than medium- or large-scale enterprises. SSEs may have in fact compensated for the decline of large firms in spite of the weak demand growth in Senegal since 1986. A substantial share of small firms have managed to increase investment, output and profits. Manufacturing firms that successfully expanded after 1986 were relatively more flexible in changing the output-mix, purchasing new equipment, and adopting an export-oriented strategy. Overall, the manufacturing sector has been partially restructured with medium- and large-scale industries still operating under protection. Partly because of trade liberalization reversal, and partly because of dynamic small-scale enterprises, Senegal has not experienced de-industrialization as suggested by some critics.

27. The public **enterprise sector** is now smaller (see para 18) and most likely more efficient than before the adjustment program. There is evidence of improvement in internal management of some PEs as a result of their increased financial autonomy (as in the case of "sociétés nationales") and the curtailment of the role of the supervisory agencies. For some key enterprises, such as the power company, the port authority, and the railway authority, there seems to be some improvement in their productivity. However, to provide a definite answer to the question of efficiency, detailed information on individual enterprises is needed.

28. Despite stagnant and declining real per capita public expenditures on **education and health** during the 1980s, the primary education and basic health status in Senegal has improved and regional differences have also narrowed markedly. This was made possible because of the following government actions. In education, teachers' salaries were restrained during most of the 1980s, thus allowing more teachers to be hired; teachers in administrative positions were re-deployed; and major innovations were introduced in primary education, mixed-grade classes and double shifts allowed more efficient use of classrooms and teachers. In health, some of the explanatory factors are: reallocation of resources in favor of primary health care, increased private and donor financing, and increased effectiveness of preventive health services. It should be stressed that these achievements in social indicators are not only poor in comparison with

countries at Senegal's level of income but, more importantly, represent short-term gains which cannot be sustained given the current pattern and level of resource allocations to the social sectors.

29. The impact of adjustment policies on various social groups has been mixed. But overall, there has been a clear improvement in the rural-urban terms of trade in favor of the rural sector. This is due more to the drop in urban incomes than to increases in rural incomes. Consumers came out beneficial during the 1980s. Public wage earners had declining real income over the 1980s, with incomes of the unskilled labor declining less rapidly than those for skilled labor. Thus there has been a move towards a less skewed wage income distribution. The impact of adjustment on employment is hard to assess given the scarcity of data. It is estimated that a minimum of 8,500 jobs (about 6% of total employment in the modern sector in 1986) would have been lost since 1986, largely in the modern manufacturing sector and the civil service. Most job losses in manufacturing were due to the liquidation of a few companies which were bound to be closed with or without adjustment reforms. There is evidence that the loss of employment in the modern sector was offset by job creation in the informal sector. The social safety net programs have contributed, though modestly, to an increase in employment. Project financing helped mitigate the impact on those losing their jobs. There is also evidence that employment started to pick up just after the decline. In sum, there is some indication that the Senegalese experience with adjustment during the 1980s and particularly since 1986, proved to be less of a burden on the poor than was suggested by the critics of adjustment.

Lessons Learned and Recommendations

30. LIMITATION OF INTERNAL ADJUSTMENT. The deflationary policy pursued by Senegal has produced limited results as compared to the targets set in the government's medium-term financial program and PFPs. In retrospect, the deflationary policy has led to severe fiscal compression and cuts in public spending on priority areas; inadequate administrative capacity has severely limited the effectiveness of second-best trade policies; and no credible income policy has been pursued. Consequently, the internal adjustment process has not produced the expected depreciation in the real exchange rate and, as a result, exports have not performed well, domestic industry could not compete against imports, and private investment has at best stagnated. The best option available for Senegal, in collaboration with the other UMOA members, is to use the real exchange rate as an active policy instrument.

31. The financial stabilization achieved so far is fragile and does not provide the basis for longer-term financial equilibria and sustained growth. It has increasingly led to reliance on higher taxation at the expense of competitiveness and to a reduction in investments, in operations and maintenance expenditures, in expenditure on human resource development (mainly primary education and health care), and in the provision of adequate public services—all crucial elements for longer-term growth and development. The present favorable achievements in income growth and the social

indicators associated with a more efficient utilization of capital are desirable, but essentially short-term.

32. PUBLIC SECTOR MANAGEMENT. This has improved overall, but misallocation of public resources remains a problem. Wages and salaries continue to be disproportionate with respect to expenditures on maintenance and operations, and unless the size of the civil service is reduced drastically, the fiscal situation as well as the productivity of the civil service sector will deteriorate rapidly.

33. While inter-sector allocations appear satisfactory, intra-sector allocations remain a problem in agriculture, education and health. Expenditures on irrigation were made at the expense of extension and research services, those on higher education were made at the expense of primary education, and those on a health curative system were made at the expense of preventive health care. Apart from the agricultural sector, where a proposed government sector reform program has been under discussion with the Bank and major donors for the last three years, the adjustment process has yet to deal with the social sectors in a more comprehensive manner. Given the scarcity of resources in Senegal, alternative ways for the government to deliver social services have to be found.

34. More vigorous state-shrinking is imperative. The recent progress in privatizing public enterprises in Senegal, which can be attributed to a change in government strategy towards being pragmatic while avoiding the syndrome of "soft budget," should continue vigorously. It is recommended that key companies, including the groundnut processing company and the utility companies, be next in the privatization process.

35. AID ADDICTION. Senegal has become addicted to external assistance which accounts for the postponement of hard economic and social changes such as the downsizing of the civil service, the adoption of a new labor code, and the restructuring of the agricultural rice sector. The lack of real sanctions by donors, including the Bank, has been a major factor in Senegal's slow progress in adjustment. Yet Senegal needs continuing high levels of support to ease the structural changes that were postponed in the 1980s. Further adjustment support for Senegal should be selective (as a large number of reforms remaining to be implemented do not require major external financing) and conditional to the implementation of up-front key policy measures. Over time, external assistance should shift back to investment.

36. THE ENABLING ENVIRONMENT. While macroeconomic stabilization and relative price reforms are necessary, a healthy business environment is essential to a quick recovery of private investment and growth. The enabling environment is defined by the following elements: the degree of certainty about government policies, the quality and sophistication of the legal and regulatory framework, the state of physical infrastructure, and the efficiency of labor and financial markets. While progress has been made in all four years, only in the financial sector has it been fully satisfactory. In the case of trade policy and civil service reform, policies were reversed in recent months. The deficiency of the labor market, the civil service and the regulatory

environment (namely the judiciary system) are the most important areas needing rapid reform.

37. GOVERNMENT OWNERSHIP. For any program to be successfully implemented, it must be owned by the government and accompanied by consensus-building efforts among the various interest groups. This has not always been the case in Senegal. The government's resolve to take actions agreed under the program has weakened over the years, as the adjustment program became increasingly biting and decision-makers became reluctant to oppose the interest groups (religious groups, civil service, labor unions) who stood to lose most from the reforms.

38. Recognizing the lack of government ownership and the shift in government focus away from fundamental structural changes to short-term financial management, the government and the Bank organized in January 1992 a retreat (known as *Les Journées de réflexions*) to deal with these issues. This proved to be extremely useful in helping the government to be fully aware of the changing world in which Senegal has to adapt and to the urgent need for deeper reforms. This experience could well be replicated for selected countries.

39. THE ADJUSTMENT PROCESS AND SEQUENCING. The adjustment process has taken longer than expected in Senegal, and is still far from complete. The packaging and sequencing of the reform measures are as critical as the policy content of the adjustment program itself. The scope of earlier adjustment operations was too big, involved too many agencies, and put a serious strain on government's limited capacity to implement the adjustment program. The shift from SALs to SECALs helped mitigate this problem by designing smaller operations, with fewer, well defined, and increasingly up-front conditionalities.

40. As stated in paragraph 10, the sequencing of the reforms was not without serious flaws in the areas of the exchange rate policy, the privatization of PEs, and the civil service reform. These flaws could be largely corrected if the real exchange rate depreciates, and the regulatory environment and the institutional capacity improve.

41. In designing the adjustment program, it is imperative to take into account the full social costs of the adjustment process. In Senegal, this was done on a trial and error basis rather than as part of the overall macroeconomic framework. This deficiency was due to lack of information about the people expected to suffer the most from the reforms—a shortcoming which will be overcome with the results of the ongoing household surveys.

42. A summary of the major lessons learned and recommendations is presented in Box 1.

Box 1: Lessons Learned and Recommendations

Adjustment Process and Sequencing

1. The ***adjustment process has taken longer than expected***, and yet is still far from being over. Serious distortions remain in the real exchange rate, the labor market, the civil service, the legal systems, agriculture, education, and health. These distortions should be the focus of future reform programs.

2. While macroeconomic stabilization and relative price reforms are necessary, a healthy ***business environment*** is essential to a quick recovery of private investment and growth. This should be the focus of future reform programs in Senegal.

3. ***The sequencing of the reforms*** has not been without serious flaws. In addition to the lack of real exchange rate policy, the decision to proceed with the liberalization of the external trade before establishing an effective tax administration, eliminating labor rigidities, and reducing the cost of production, reflects insufficient consideration given to the sequencing of reforms. Proceeding with the civil service departure program before implementing a database and not implementing the banking sector reform early enough, also reflect deficiencies in the sequencing of reforms. Finally, the privatization of public enterprises ought to have been initiated once a good regulatory and incentives framework was in place.

4. The ***social costs of adjustment*** were not introduced into the adjustment process as part of the overall macroeconomic framework. The completion of household income and expenditure surveys will provide the necessary data for anti-poverty policy formulation.

5. The ***shift from SALs to SECALs*** has reduced the strain on government's limited capacity to implement adjustment programs and has helped it focus on a smaller number of well-defined, and increasingly up-front policy reforms.

6. The success of ***reform implementation*** seems to have been due to a combination of three elements: the degree to which there is consensus-building; the level of commitment of the core team in charge of formulating and coordinating the reform program; and the nature of the reform programs themselves—the more biting these were, the more reluctant government was to implement them fully. The high-level retreat organized by the government and the Bank in January 1992 proved to be useful in shifting government's focus away from short-term financial considerations toward fundamental structural changes. Retreats of this kind could well be replicated for selected countries with equal benefit.

Adjustment Outcomes

7. The ***deflationary policy*** pursued in Senegal since the mid-eighties has produced limited results as measured by the income and export performance. The best option remaining is for Senegal to use the exchange rate as an active policy instrument in collaboration with other UMOA members.

Box 1: Lessons Learned and Recommendations

Adjustment Outcomes (*Continued*)

8. Notwithstanding external shocks, the ***supply response*** in agriculture and manufacturing during the adjustment period has been positive, though modest. The growth in the manufacturing sector is accounted for by the informal sector and small-scale industries; medium- and large-scale industries (excluding mining, chemical and energy) have not performed well.

9. The ***financial stabilization*** achieved to date is fragile and cannot provide the basis for long-term financial equilibria and sustained growth unless the conflict between budget-revenue requirements and competitiveness imperatives are resolved. Adequate resources need to be allocated toward investment, operations and maintenance, and human resource development. ***Intra-sector misallocations*** remain a serious problem in agriculture, education, and health. Expenditures on wages and salaries, and transfers to public enterprise sectors should be drastically reduced.

10. The Senegalese experience with adjustment has proved to be less of ***a burden on the poor***, mostly rural, than was suggested by the critics of adjustment.

11. The success of the ***privatization*** of public enterprises is attributed to a change in government's strategy towards being pragmatic and to an aggressive leadership on the part of those in charge of the privatization program. The focus on viable enterprises and the tightening of the budget also precipitated the privatization process. It is recommended that this strategy continue, and that key enterprises, including the groundnut oil processing company (SONACOS) and the utility companies, be privatized.

12. Excessive ***external budgetary assistance*** proved to be a disincentive for implementing difficult reform measures. Future adjustment support to ease the structural changes postponed in the 1980s should be selective and conditional upon the up-front implementation of policy measures. Over time, external assistance should shift back to investment.

1

Background and Overview

Introduction

1.1 This study evaluates Senegal's adjustment performance since 1980, the year Senegal launched its first adjustment program. The evaluation covers the government's reform program in its entirety, and is not limited to Bank-supported lending operations. In reality, given the Bank's long association with structural adjustment in Senegal, and the IMF's long association with stabilization, an evaluation of the government's reform program is almost synonymous to an evaluation of World Bank/IMF adjustment lending operations. The report focuses on the various steps of the adjustment process—from design to implementation (Chapter 2), and on the macroeconomic and sector adjustment impacts (Chapters 3 and 4). Lessons learned from the Senegalese adjustment experience are discussed in Chapter 5. This study is one of several country case studies being prepared by the Africa Region in parallel to the African Adjustment Study currently under preparation by the Country Economics Department (CEC).

1.2 This report draws on the findings of several recent studies on economic developments in Senegal, particularly related to the adjustment experience (see Bibliography). Three studies are worth singling out: "The World Bank and Senegal, 1960-87" (1989d); "Senegal Macroeconomic Update Report" (1992d); and "Senegal Public Expenditure Review" (1991b).

1.3 The present chapter gives a brief background on the performance of the Senegalese economy during the period 1960-80. It highlights the origin of the financial imbalances that led to a serious crisis in the late 1970s, and consequently to the adoption by the government of the adjustment program for the decade of the 1980s. The 1980s consisted of two distinct sub-periods. The first half of the decade (1980-85) was a period when little structural adjustment took place, and, for that reason, is referred to as the stabilization or pre-adjustment period. The second half of the decade witnessed more substantial efforts towards the reform of the economy, and is referred to as the period of adjustment.

1.4 The methodology used to evaluate the impact of adjustment on economic performance (in Chapters 3 and 4) is the "before and after" approach. The main flaw of this approach is that it relies on the assumption that other things are being held equal which is highly implausible. To complement this approach, it is suggested that future work focus on other methodologies which have been followed in the literature. The "control group" approach allows, in principle, to overcome the inability of the "before and after" approach to distinguish the effect of adjustment per se and the effect of other factors. It compares the performance in adjusting countries with performance in a reference group of non-adjusting countries to estimate what would have happened in the adjusting countries had adjustment not taken place. The control group approach would be the most appropriate approach for this kind of analysis, but the lack of reliable time series data precludes any attempt to quantify the impact of the reforms.

The Economic Setting

1.5 Senegal is a small, semi-arid Sahelian nation with a population of 7.4 million, predominantly rural, and with limited natural resource endowments. The mainstays of the traditional economy remain millet cultivation and nomadic cattle raising for domestic consumption, and groundnut cultivation for exports. The modern sector includes fishing, phosphates, chemical industries, and tourism, and is concentrated in Dakar and on the coastal belt. At the current exchange rate, the 1990 income per capita of US$710 places Senegal almost at the bottom of the lower-middle-income economies.

1.6 At independence in 1960, Senegal inherited a relatively well-developed physical and social infrastructure due to the prominent role Dakar played in the large French West African colony. Senegal has enjoyed a high profile in African affairs and has been, until recently, the only Sahelian country with a lively democratic system, including a vocal press. This has helped Senegal mobilize substantial external resources over the years. Senegal has had a long tradition of "African socialism" resulting in widespread government participation and regulatory controls. Traditional values and religious ties still play an important role in social, economic and political spheres.

1.7 During the first two decades following independence, Senegal's economic performance was on the whole poor, even by Sub-Saharan Africa standards. Senegal experienced the lowest GDP growth rate of any African state not affected by war or civil strife. This period can be divided into four distinct sub-periods. Until 1966 when Senegal lost the preferential treatment accorded to its agricultural exports to the EEC, the economic management was relatively sound and the economy grew at about 3.5% p.a., surpassing the population growth rate. Between 1967 and 1974 when the world oil price quadrupled, GDP grew by only 1.3% p.a., and groundnut production fell by almost half. During this period, Senegal pursued actively a nationalization policy and an industrial import-substitution policy. During the third period, 1974 to 1978, the average GDP growth rate was roughly the same as population, largely explained by favorable weather conditions and a very favorable terms of trade, resulting from higher world prices for phosphate and groundnuts.

1.8 During the fourth period, 1978 to 1981, Senegal experienced two major droughts together with a substantial fall in groundnut world prices and, correspondingly, a GDP growth rate of 0.8% p.a. By the end of this period, all key economic indicators reflected serious financial and structural imbalances. The fiscal deficit and the current account deficit reached 12.5% and 25.7% of GDP, respectively. Savings were negative and total consumption exceeded GDP. The inflation rate soared to 12% and the terms of trade dropped by 12% between 1975 and 1982. The total stock of debt represented 67.4% of GDP and the scheduled debt service represented 18.5% of total exports of GNFS.

Table 1.1: Senegal Structure of Production and Fiscal Demand, 1960-80

	Real Growth Rate (%)			*Share of GDP (%)*		
	1960-70	*1970-75*	*1975-80*	*1960*	*1970*	*1980*
GDP	2.5	1.9	1.3	100.0	100.0	100.0
(Primary Sector)	3.0	3.2	-1.3	24.3	24.1	18.8
Investment	1.4	3.0	-1.1	15.6	15.7	15.3
Domestic Savings	2.1	3.1	-21.0	14.6	11.1	-0.4
Exports of GNFS	0.1	1.0	5.8	39.6	27.4	28.3
Imports of GNFS	0.2	1.4	9.8	40.6	32.0	44.0
Government Consumption	0.8	2.2	8.1	17.3	14.9	22.0
Private Consumption	3.0	1.7	2.7	68.1	74.0	78.4

Sources: Column 3: Unified Survey (November 1992); Column 6: SA Table 1; Other Columns: Senegal Country Economic Memorandum, Table 1.1, 1984.

1.9 The need for structural economic changes in Senegal can be traced to the early years of independence when Senegal lost its large French West African market, and ended up with oversized industries and large number of highly paid civil servants. The key economic indicators pointed to macroeconomic imbalances in as early as 1966, when groundnut exports suddenly lost their guaranteed French market and had to compete in the world markets. Government was slow to recognize the need for structural changes. To make matters worse, the government responded to the short-lived commodity boom in the second half of the 1970s by borrowing heavily from foreign commercial banks, in expectation of a return to more favorable terms of trade. The 1987 Country Economic Memorandum observes that "adjustment became unavoidable at the end of the 1970s, when a combination of poor financial and investment policies, worsened terms of trade and successive droughts plunged an already weakened economy into a severe crisis."

The Government's Response to the Financial Crisis

1.10 In the late 1970s, the government began to recognize the shortcomings of its ambitious development plans and nationalization policies and in December 1979, it announced its medium-term program for economic and financial adjustment, known by its French acronym PREF (Plan à moyen terme de redressement économique et financier), covering the period 1980-84. This program was designed in close collaboration with the Bank and the Fund, and sought to stabilize the financial situation, raise public savings, increase investment in the productive sectors, liberalize trade, and reduce the state role in the economy. This first attempt at stabilizing the financial situation and creating the basis for growth did not, however, yield satisfactory results because of lack of implementation of agreed adjustment measures. The IMF three-year Extended Fund Facility (EFF) arrangement, which was approved in August 1980, was shifted to a simple one-year stand-by a year later, which in turn was canceled in 1983.

Something similar happened to the Bank's first structural adjustment loan—it was approved in 1980, but its second tranche was canceled in 1983.

1.11 Renewed efforts were launched in 1984 with the same broad policy objectives in mind. The first meeting of a Consultative Group (CG) for Senegal was organized by the Bank in December 1984, after which Senegal prepared a medium-term adjustment program for the period 1985-92 which was endorsed by the donors. This was followed by a second CG organized in 1987. The government's adjustment effort has been supported since 1980 by four Bank SALs (1980, 1986, 1987, and 1990) and two SECALs, financial sector in 1989, and transport sector in 1991, and by a series of IMF arrangements, EFF in 1980, followed by five standbys, a two-year SAF and a three-year ESAF. Senegal, along with Kenya and Turkey, were the first countries to receive an adjustment credit or loan from the Bank. A total of five Policy Framework Papers (PFPs) were approved by the Bank and the Fund Boards between 1986-91. Senegal has been a recipient country of the Special Program of Assistance since its establishment in 1987. The adjustment program in Senegal has been generously supported by the donor community, either directly or as co-financiers of Bank operations. Between 1984 and 1990, adjustment support to Senegal accounted for half of total net disbursement of official development assistance (ODA) which, in turn, represented 4.5% of the total amount received by Sub-Saharan Africa. [1/] This contrasts well to the small weight of Senegal in SSA as measured by the shares of its population (1.5%) and gross national product (GNP) (0.3%).

Senegal Database

1.12 The analysis of Senegal's economic performance is complicated by significant weaknesses in the country's database. The recent Macroeconomic Update Report points out that official statistics are particularly weak. Senegal data lacks reliability and suffers from incomplete coverage common to many developing countries, and from having been politicized during the adjustment period. In financial stabilization programs, it has become difficult to distinguish actual results from projections or preliminary estimates. This challenges the accuracy of Senegal's actual growth data, in particular GDP and export growth, which may in fact be much lower than the official figures.

1.13 Senegal's national income accounts statistics continue to experience long delays in publication. The last official series was issued in 1984. Some evidence for the poor data quality are presented here. First, there are unexplained discrepancies between the performance of agriculture and industry as measured by crop output or production indices, and the national accounts figures. Second, the composition of sectoral output raises serious concern. The tertiary sector in Senegal accounts for over 60% of GDP, a figure more likely to be found in industrial economies than in developing countries, particularly at Senegal's level of development, which ranges from 35% to 50%. Third, as much as 40% of total GDP is based on extrapolations of past data obtained from the

1/ World Bank (1992f), Table 20.

baseline survey of 1973-75. Finally, the estimate of agriculture's contribution to nominal GDP is beset by the practice of valuing local coarse grains at official prices while official purchases account for less than 10% of total output.

1.14 Senegal's balance of payments data also show major shortcomings. The latest official balance of payments was published in 1986. The data on merchandise exports are particularly of poor quality. As in the national income accounts, estimates tend to be unduly influenced by policy objectives and financial program targets. Consequently, the figures underlying the analysis in this report are preliminary estimates and may be subject to significant alterations.

2

Design and Implementation of the Adjustment Program

> ***Si nous ne trouvons pas des choses agréables, nous trouverons du moins des choses nouvelles. (If we do not find anything pleasant, at least we shall find something new.)***
> ***- Voltaire, Candide***

2.1 This chapter [2/] deals with the design and implementation of policy reforms in Senegal during the 1980s. It is organized in four sections. Section one covers fiscal, monetary and exchange rate policies; section two covers pricing and trade polices as well as labor and wage policy; and section three covers key sectors in the economy (financial, public enterprises and social sectors) as well as the institutional and legal framework. Finally, section four provides a summary assessment of the adequacy of the reform program in Senegal, in terms of coverage and sequencing, and the progress made in implementation.

A. Macroeconomic Policy and Management

Fiscal Policy and Management

Introduction

2.2 As in most countries undergoing adjustment programs, fiscal policy was used in Senegal as a primary instrument for reducing aggregate demand and correcting major disequilibria in the economy. The framework for fiscal policy in Senegal is, however, affected by several factors which not only complicate the design of the reform program but also render the assessment of the performance more intricate. Some of these factors are specific to Senegal; others are related to the rules that regulate fiscal and monetary policies within the West African Monetary Union (known by its French acronym UMOA) of which Senegal is a member.

2.3 Because Senegal belongs to UMOA, which regulates the money supply, prohibits the changing of relative prices, and reduces aggregate demand by adjusting the exchange rate, Senegal has relied on fiscal policy for its adjustment efforts. Also, while the French Treasury's "operations accounts" provide UMOA countries the guarantee of

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2/ A longer version of this chapter makes up the entire report written by this author with co-author Brian Ngo entitled "Design and Implementation of Adjustment Programs in Senegal."

financing balance of payments shortfalls, safeguard features adopted by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) (the regional central bank) to prevent monetary expansion impose a statutory act whereby the maximum level of BCEAO advances to the Senegalese Government may not exceed 20% of the previous year's ordinary budgetary receipts. While there are several sources of leakage to this overdraft rule, the rule does impose a limit on the financing of government deficits from the central bank. Thus, while Senegal's membership in UMOA may help limit the threat of inflation, the system is prone to liquidity crises.

2.4 The structure of the public sector in Senegal further complicates the management of public finances. In addition to the consolidated central government operations, the Treasury maintains diverse special and correspondent accounts. Until changes introduced in July 1991, these accounts were not integrated in the budget and were not subjected to normal budgetary procedures. Thus, the lack of effective control on these accounts could cause large yearly variations in the Treasury's liabilities vis-à-vis these accounts. The design and management of fiscal policy was also more complex because of the close association of key fiscal measures with the industrial policy, particularly those related to tariff reforms and production costs.

2.5 Some of the policy conflicts reflect, to some extent, a conflict of objectives among donors, particularly between the IMF, which gave preeminence to issues of stabilization and thus the overwhelming concern about revenue mobilization at the expense of growth promotion, and the World Bank which put greater emphasis on longer-term issues such as reducing the cost of key inputs and the corporate tax rate. Also large inflows of official assistance from multilateral agencies and bilateral donors (France in particular) made it possible for Senegal to postpone "hard-budget" choices (see paras 3.9 and 3.10).

Design of the Reform Program

2.6 The reform of fiscal policy in Senegal covers a broad range of objectives, the most important of which is to *improve government finances*. Senegal began the decade of the 1980s with an overall budget deficit (on a payment order basis and excluding grants) of 12.5% of GDP and a total public expenditure of about 30% of GDP. The civil service wage bill, by far the largest expenditure item, accounted for 40% of total expenditure. A key fiscal objective was to enhance the buoyancy of the tax system to increase revenue. Following the recommendations of an IMF fiscal mission which visited Senegal in May 1985, the government adopted a fiscal reform program aimed at modernizing the tax system, creating a more effective and less distorted tax regime, and widening the tax base.

2.7 The government also pursued a restricted expenditure policy. It recognized the need for a two-pronged approach—to control the wage bill and to limit transfers to the Public Enterprise (PE) sector. Measures were taken to contain the wage bill either within a ceiling or as a share of total expenditures, and to reduce the number of civil servants. These measures (such as the avoidance of general salary increases and the limitation of advancements and promotions of civil servants) were mostly ad-hoc in nature and not until 1990 did the government adopt a coherent civil service program (see para 2.84). Another important component of the fiscal reform was to improve the financial performance of public enterprises so as to reduce the budgetary burden of that sector and to increase the sector's efficiency (see para 2.68). With a few exceptions (road maintenance and primary school teachers recruitment under SAL IV), no specific measures to protect key social sectors, reduce operations and maintenance, and a core public investment program were built into the reform program.

2.8 Another important objective of the fiscal reform program was to *improve the public investment program (PIP)* by adopting a three-year "rolling" PIP. This was done in 1986 and has since been updated on a yearly basis. The objectives of the PIP reform package were to: make investment projects consistent with the macroeconomic framework and sectorial priorities; improve project preparation and appraisal; monitor systematically the physical and financial aspects of project implementation; incorporate the investment budget into the government's overall budget (keeping recurrent cost and indebtedness implications in mind); and strengthen technical ministries' capacity to identify, prepare, and monitor their respective projects.

2.9 The third fiscal objective was to improve *the external debt management* system. A computerized debt management system was established with IDA-financed technical assistance to provide data on outstanding debt, arrears, and scheduled debt service and to issue computerized payment orders. To improve the structure of its external debt, the government also implemented several measures to discontinue commercial borrowing, curtail public guarantee to private borrowers, and stop the transfer of proceeds from debt relief negotiated by the government to the final borrowers.

Implementation of the Reform Program

2.10 The implementation of the fiscal reforms varied across policy areas. Since 1986, the government has initiated wide-ranging tax reforms. A general tax code was introduced in early 1987 aimed at changing specific duties to an ad-valorem basis, and widening the scope of the value-added tax (VAT) to trade and construction sectors. The VAT was generalized to services and the transport sector in 1991 and VAT rates were revised to simplify and reduce the rate structure. Reforms of foreign trade taxation included simplifying the tariff structure and the lifting of QRs (see para 2.28). In September 1989, the government instituted a withholding tax on professional and property income, a global tax on personal income—replacing a variety of schedular taxes, and, in January 1990, it placed a single tax of 35% on corporate income. Another effort to widen the tax base consisted of completing the fiscal cadastre for the Dakar region; follow-up measures to institute the tax have, however, suffered much delay. Finally, efforts were continuing to be made to raise tax revenue from the informal sector.

2.11 In parallel to reforms aimed at modernizing the tax system, several other measures were introduced to mobilize additional revenue. [3/] The design and implementation of this plethora of new measures was particularly taxing to the limited administrative capacity; and the government tended to focus efforts on short-term considerations rather than on structural issues. The new measures resulted also in additional distortions to an already rather elaborate tax system. The predominance of short-term revenue considerations over longer-term growth promotion measures have prevented a meaningful reduction in the energy cost and the sustainability of the custom tariff harmonization and reduction.

2.12 The implementation of measures aimed at reducing the size of the civil service and controlling the wage bill encountered serious slippages (see para 2.85) and as a result the wage bill still represented the lion share of government revenues and recurrent expenditures. The lack of significant progress in the control of transfers (direct and indirect subsidies) to the PEs reflects the complex situation in this sector, and the lack of commitment of those in charge of the reform to undertake politically sensitive decisions to reduce the amount of transfers from the budget to this sector (see para 2.73).

2.13 Management of the PIP has improved, particularly in eliminating conflicts between capital investment and sector strategies. Projects are also generally better prepared. Institutional capacity building must continue to be strengthened or else progress achieved so far will be threatened. To do this, the capacity of technical ministries to identify and prepare projects in their respective sectors must be strengthened and coordination between services in charge of the PIP and Treasury staff enhanced so that recurrent cost and debt implications of the PIP are clearly reflected in the budget. Without this coordination, there is a high risk of insufficient allocation of operations and maintenance for new projects, and, consequently, poor project economic rates of return.

2.14 As discussed in Chapter 3, the financial position of the government improved during the 1980s, though not without serious problems left to be resolved. Poor tax administration was magnified by the need to design and implement numerous new taxes within a short time period. Equally important, the decision to proceed with

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3/ Important measures introduced in the last three years include: (i) a 5 percent increase in customs duty tax (August 1989); (ii) the introduction of minimum assessed taxes on imports (September 1989) and their extension to a much larger group of commodities (July 1990); (iii) an increase in a number of stamp duties (by between 50 and 100 percent) and an increased excise tax on cigarettes, alcoholic beverages, tobacco products, soft drinks, coffee, and tea (August 1990); (iv) an introduction of an ad-valorem customs fee of 3 percent (August 1990); (v) a reduction of deferred customs payments (1990-91); (vi) an increase in personal income tax rates by 5 percent (October 1990) which was later rescinded because of strong political resistance; (vii) an increase in rates and coverage of stamp taxes and fees (August 1990); (viii) the introduction of a tax on sugar (March 1991); (ix) the institution of a transaction fee of 5 percent on sales of used motor vehicles and of 2 percent for new vehicles (March 1991).

the liberalization of the economy [4/] before the establishment of an effective tax administration and before stabilization results were consolidated reflect insufficient consideration given to the sequencing of the reform program. Other reform measures have seen their impact drastically reduced because of poor implementation. For instance, efforts to combat under-invoicing through computerized customs declaration have so far yielded few significant results because concrete efforts to improve the functioning of the value assessment section, without which under-invoicing remains mostly undetected, have not been rigorously undertaken. Deficiencies in revenue mobilization and in controlling the wage bill affected the other expenditure items which further undermined the success of fiscal adjustment.

Monetary Policy

Design of Monetary Policy

2.15 Within the institutional framework described in Box 2.1, Senegal's monetary policy aims at three objectives: to manage overall demand to correct external imbalances; to keep the level of domestic inflation below that of major trading partners to gain competitiveness; and to strengthen the management of liquidity and reinforce bank supervision. While the first two objectives mentioned above were achieved mainly through restrictive credit policies, a more comprehensive set of measures was undertaken in the banking sector reform including the introduction of market determined interest rates.

2.16 In September 1989, Senegal adopted, with other members of the UMOA, a comprehensive reform of monetary policy instruments designed to replace the administrative controls over money and credit with an indirect and market-oriented system of monetary instruments. In particular:

(a) the preferential rediscount rate was abolished; the central bank's refinancing rate was set above the money market rates—at levels slightly higher than those for the French franc—and banks were given more flexibility in determining their rates on deposits and loans;

(b) conditions for access to central bank refinancing were tightened and crop credit will be refinanced by the central bank only if it is within general refinancing limits and under the overall credit ceiling of the commercial banks;

4/ Customs administration which was set up to manage the taxation of imports under a system of widespread non-tariff control was unprepared to face the situation when most Quantitative Restrictions (QRs) were removed between September 1986 and January 1988.

(c) rigorous controls were placed upon state guarantees for borrowing of public and private enterprises. Government-guaranteed non-performing loans will be imputed to the overall credit ceiling set for the government;

(d) the system of sectoral credit allocation was eliminated and prior authorization will be used only as qualitative credit control instrument; and

(e) the BCEAO's bank inspection and supervision were sharply reinforced with the creation of the union-wide bank supervision body (*Commission bancaire*).

Box 2.1: Framework for Monetary Policy in UMOA Countries

The conduct of monetary policy in Senegal is heavily influenced by its membership to the West African Monetary Union (Union Monétaire Ouest Africaine, UMOA) whose membership includes Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. Established in 1962, UMOA was substantially reformed during 1973-75 and again in 1989. Five essential provisions characterize the operation of the monetary union: first, the member countries share the CFA franc whose convertibility into the French franc at a fixed exchange rate is supported by an overdraft facility through the operations account with the French Treasury. In return for France's support, the member countries, through the BCEAO, agree to deposit the equivalent of at least 65% of its foreign exchange holdings in the operations account. Second, there is a uniform interest rate structure which applies throughout the zone. Third, uniform ceilings on bank lending margins are fixed to the common interest rate structure. Fourth, common limits are set for government borrowing from the BCEAO which, except for temporary overruns, could not exceed 20% of the previous year's fiscal revenues. Fifth, one zone-wide interbank money market was established in July 1975 to help recycle the excess liquidity of deposit money banks within the union and to curb capital outflow (deposit money banks are not authorized to maintain deposits abroad in excess of their working balances).

The main monetary and credit policy instruments used by the BCEAO are (a) credit targets; (b) a ceiling on access to central bank financing to maintain aggregate demand at a level consistent with balance of payments and domestic growth objectives; (c) a rediscount rate; (d) the interbank money market; and (e) a liquidity ratio.

Because of the openness of the monetary union, the fixed exchange rate regime, and the need to maintain the debit balance of the operations account at an acceptable level, the BCEAO sets an overall credit target with the final target at the individual country's level of net foreign assets. Using this overall ceiling, the national credit committee of each member country establishes objectives regarding money and credit—based on external reserves and in light of prospective trends in production and prices—and the proposed ceiling for access by the government and the financial sector to central bank refinancing. This formulation comprises a target for net credit to the government; indicative ceiling for crop credit; and ceilings for ordinary credit for the rest of the economy.

Monetary policy is conducted by targeting credit rather than by influencing the money supply. As part of the reforms initiated in 1989, the BCEAO is considering introducing new monetary management tools such as reserve requirements.

2.17 In a phase of reforms, the introduction of reserve requirements is envisaged. During the transition period, the conduct of monetary and credit policy will continue to rely mainly on interest rate policy and overall credit ceilings.

Implementation of the Reform Program

2.18 The heavy involvement of the BCEAO, and the need to re-establish confidence in the banking sector, after the ailing banks were liquidated, led to a forceful and timely implementation of monetary and credit policy reform. With minor differences, most of these reforms applied to all members of the union, thus giving more importance to their implementation. The reforms have led to a sounder environment where government interference in the process of credit allocation is limited. The government's reliance on borrowing from the banking sector has been curtailed due to stricter controls on government's borrowing through state-owned enterprises.

2.19 The BCEAO's adherence to a restrictive monetary policy in the last few years has improved Senegal's external accounts. [5/] This policy has, however, severely constrained domestic credit to the rest of the economy. During 1989-92, credit to the non-government sector (excluding crop credit and the refinancing of ONCAD debt) increased on average by only 1.3% per year in nominal terms; in real terms, it declined by 5.6% each year. The money supply (M2) has followed a similar trend although the decline has been less severe. As a result of these trends, the ratio of M2 to GDP which measures the degree of financial deepening has fallen from 0.28 in 1984 to 0.23 in 1992 (see Table 2.1).

2.20 The BCEAO policies appeared, in the context of the fixed exchange rate, appropriate to maintain a sustainable external position, particularly given the lack of success in controlling the fiscal situation. It is questionable that this policy can be maintained without an adverse impact on the growth of the economy. This issue will

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5/ In view of its significance in the determination of monetary and credit policy, development of Senegal's net external position warrants a brief description at this juncture. The external assets position began to stabilize in 1989 following wide fluctuations experienced during 1983-88 on account of a marked deterioration in the external current account between 1983 and 1985, followed by significant private capital outflows in 1987 and 1988. As a result, Senegal's negative position in the operations account reached a peak of CFAF 97.2 billion in June 1986. The deterioration of Senegal's external accounts through 1985 stemmed from high imports, a direct reflection of the high level of overall demand. A significant improvement in the external accounts began in 1986.

Most of this improvement can be attributed to the pursuit of strict monetary policy. The fiscal situation, which improved significantly from 1982 through 1987, worsened during the period 1987-90. As shown in Table 2.1, BCEAO's net claims on the Government declined sharply in 1987. These developments reflect the availability of larger external budgetary assistance in support of the country's structural adjustment program. There was also evidence of efforts to reduce net lending to the government, irrespective of the statutory ceiling defined in the BCEAO's rules and regulations which limits total advances to the Government to 20 percent of fiscal revenues collected in the previous year. This development was even more notable if one considers the series of measures designed to curtail government borrowing via the provision of guarantees for borrowing by public enterprises from the banking sector.

Table 2.1: Summary of Monetary Indicators
(Annual change of current values, in % except M2/GDP)

Year	*Credit to Government*	*Economy*	*Money (M2)*	*Nominal GDP*	*Ratio M2/GDP*
1984	31.7	10.8	3.6	8.1	0.28
1985	4.7	1.2	2.8	10.9	0.26
1986	12.2	2.8	2.5	12.9	0.24
1987	1.3	1.7	17.4	9.4	0.26
1988	4.2	2.2	1.2	7.1	0.24
1989	-6.6	7.9	7.1	1.9	0.25
1990	-12.2	-10.1	0.5	5.4	0.24
1991	-15.8	-1.8	-1.6	3.4	0.23
1992	4.8	2.3	5.0	7.3	0.23

Source: Senegal - Macroeconomic Update Report (SA Table 44), August 1992.

be discussed in more detail in the next section of this report. The policies have also been successful in controlling the rate of domestic inflation which has stabilized at about 2% to 3% in recent years. Better control of inflation has helped Senegal recover a certain degree of competitiveness.

2.21 One of the results of the monetary and credit sector reform has been the liberalization of the interest structure. By eliminating the preferential discount rate—which formerly applied to agriculture, the export sector, small- and medium-sized companies and residential construction (for first-time buyers or builders)—and the liberalization of margins and commissions, lending rates for prime borrowers currently stand at 16% to 18% while the official inflation rate remains at less than 3%. Banks' lending continues to reflect the preference of short-term trade-related activities at the expense of longer-term investment projects, thereby undermining the growth prospects of the economy. Between 1985 and 1990, the share of short-term lending increased from 60% to 70% of cumulative bank lending, while loans to industrial projects have fallen from 22% to less than 15%.

2.22 The conduct of monetary and credit policy in Senegal has been designed and implemented in a firm, timely and consistent manner. These measures have helped in keeping inflation low, curtailing overall domestic demand, providing the basis for a more robust banking sector and restricting government intervention in the allocation of credit. They have not, however, succeeded in creating the foundations for sustainable growth.

Exchange Rate Management

2.23 As a member of UMOA, Senegal has enjoyed, since 1948, a convertible currency (CFA franc) at a fix parity with the French franc (CFAF 50 per French franc). Senegal had no limitation on access to imports and transferability of capital. The CFA franc has been chronically overvalued vis-à-vis the French franc and other currencies. Because it cannot unilaterally change the nominal exchange rate, Senegal has pursued a deflationary policy in its adjustment program to eliminate the overvaluation and thus regain competitiveness. This section analyzes the extent Senegal has succeeded in depreciating its real exchange rate and improved its competitiveness.

Real Exchange Rate and Competitiveness

2.24 During the last two decades, Senegal has witnessed a marked swing in its terms of trade with an overall slight downward trend, high inflationary rates and low productivity gains. Between 1971 and 1986, domestic prices rose by 7% compared to Senegal's trading partners; they have somewhat declined since. For the 1980s, there was no change in the relative inflation index, and low productivity gains. These developments, together with the sharp real currency depreciation of non-CFA neighboring countries, have severely eroded Senegal's competitiveness and exacerbated trade imbalances.

Table 2.2 : Senegal Real Effective Exchange Rate (1985 = 100)

	REER	*RER France*	*Terms of Trade*	*Resource Balance (% GDP) Constant*	*Resource Balance (% GDP) Current*
1970	93	77	103	n/a	-4.6
1975	122	97	100	n/a	-5.2
1980	103	92	95	n/a	-15.7
1981	91	98	101	-18.9	-19.3
1982	93	93	88	-6.2	-12.3
1983	92	93	86	-5.2	-12.3
1984	89	92	98	-7.9	-9.5
1985	100	100	100	-11.2	-11.2
1986	125	109	106	-8.6	-5.4
1987	133	105	103	-8.2	-5.6
1988	122	98	102	-6.4	-5.0
1989	115	93	99	-5.4	-5.3
1990	125	96	101	-4.8	-4.0

Note: Appreciation is indicated by an increase in the index which is calculated from official exchange rates deflated by the wholesale price indices. REER is calculated using trade-weighted data for Senegal's 20 most important trading partners.

Source: Macroeconomic Update Report (SA Table 46), August 1992, and staff estimates.

2.25 The movement in the real effective exchange rate (REER), a commonly used measure of competitiveness, [6] shows that, in the 1980s, while the competitiveness of other developing countries (SSA, Latin America, heavily-indebted middle-income countries) was improving, that of the CFA zone, including Senegal, was actually worsening despite implementation of internal adjustment programs. Table 2.2 indicates that the REER has depreciated (in foreign currency terms) by 14% during 1980-84 and then appreciated by 25% during 1985-90. The appreciation of the REER during the second half of the 1980s is due to the appreciation of the CFA franc vis-à-vis the U.S. dollar and the Naira. The real exchange rate vis-à-vis Ghana, Nigeria and China, against which Senegal has to compete on export markets, have substantially appreciated during the period 1981-89 by 92%, 75% and 40%, respectively. [7]

Real Exchange Rate and Balance of Payments

2.26 The relationship between the real exchange rate and the real trade balance, as can be observed in Table 2.2, does not support the theory which suggests that when the real exchange rate appreciates, the trade balance widens as exports decrease and imports increase. The opposite seems to have happened in Senegal. For instance, while the REER appreciated by 25% between 1985 and 1990, the trade balance had improved by 7 percentage points of GDP. A closer look at the disaggregated data provides an explanation in line with the theory. The improvement in the trade balance was due to a drop in exports by 4 percentage points of GDP in line with expectations, and a drop in official imports by 11 percentage points of GDP. The latter was a direct result of drastic cuts in public expenditure programs, particularly investment.

B. *Pricing and Trade Policies*

International Trade Reform

Background

2.27 The strategy for industrial development in Senegal has historically concentrated on import substitution, with the exception of a few relatively recent industries engaged in exports of fish, phosphates and groundnuts. This strategy had reached its limitation by mid-1980s, and had, because of the underlying policy of high import protection, discouraged the development of exports and encouraged fraudulent imports. Until the

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6/ Competitiveness is defined here in the narrow sense of relative prices. It is becoming increasingly obvious, particularly from the experience of the newly industrialized economies, that no simple definition of competitiveness would suffice. The competitiveness of an economy is not just a function of its wages and prices (relative to other countries), but also greatly influenced by non-price factors in a changing and increasingly integrated world. These factors include the ability to absorb, use and develop technology to reduce production costs, improve product quality, and innovate new products; and marketing strategy and arrangements covering such diverse factors as packaging, sales networks and after-sales service.

7/ World Bank (1992d), p. 42, Table 3.3.

reforms which began in 1986, import protection was carried out using extensively non-tariff restrictions (quantitative restrictions (QRs), monopolies, prior import authorization) and high and uneven nominal tariffs. To improve the competitiveness of the industrial sector, the government embarked in 1986, as part of a comprehensive industrial reform program on the rationalization and liberalization of its trade policy.

Design of the Reform Program

2.28 The trade reform program, whose objective was to harmonize effective protection, was designed to be implemented over a two-year period (July 1986-July 1988) in the following sequence. In 1986, government decided to (a) freeze the number of products subject to quotas, (b) eliminate QRs for a list of goods not produced in Senegal and for categories of goods of one sub-sector, (c) reduce import duties for 15 groups of products (from 90% to 65%), and (d) strengthen the export subsidy and drawback schemes, thus ensuring equivalent incentives across manufacturing sectors. In 1987, the government decided to (a) eliminate most QRs as well as all reference prices (*valeurs mercuriales*), except in cases where under-invoicing or dumping practices were commonly observed, (b) narrow further the tariff rates band, and (c) strengthen further the key institutions dealing with industrial exports through the restructuring of the export insurance agency and the center for external trade. The main objective of these reforms was to reduce the excessive tariff protection and to consolidate the tariff structure within a limited band (consisting of four customs duty rates).

2.29 Contrary to the experience in non-CFA countries, the removal of QRs was not followed immediately by high tariffs, a critical step to ensure the same level of protection. The rationale for this different treatment stems from the fact that, because of high real exchange rate overvaluation, the protection level in Senegal was already high enough and any additional increase would only intensify the degree of fraud, given the peculiar geographic location of The Gambia. This being said, it can still be argued that the sequencing and pace of trade reforms were less than optimal in Senegal. The implementation period (24 months) was too short to allow the manufacturing firms to be well prepared in the face of stiff external competition. Another major sequencing problem was the implementation timing of the critical accompanying measures. The industrial policy reform called for a substantial reduction in the cost of production in Senegal through the liberalization of the labor market (paras 2.41 - 2.44), the reduction in energy costs (para 2.36), and the improvement in the regulatory environment. In retrospect, the labor market issue was not effectively addressed, the energy cost was slightly reduced three years after trade was completely liberalized, and the regulatory environment was only recently addressed in a meaningful way.

Implementation of the Reform Program

2.30 The implementation of trade measures aimed at opening up the economy proceeded largely on schedule. However, because of the lack of implementation of the accompanying measures needed to reduce the cost of doing business in Senegal, and because of significant real exchange rate depreciation in competing countries (including

The Gambia), the industrial sector faced stiff competition over a rather short period from imported goods, thus resulting in a decline in production. The decline was particularly severe for light manufactures such as textiles, shoes, batteries and matches. Under the pressure emanating from these industries, the government reintroduced several protection measures in mid-1989, including tariff exemptions for imported inputs needed in the production of textiles, matches and batteries.

2.31 The government reversed its protection policy by raising customs tariffs, partly to restore protection for sub-sectors threatened by external competition and partly to increase tax revenues. It should be recalled that government experienced major revenue shortfalls in fiscal year 1988-89 not necessarily because of trade liberalization. Customs duties (*droits de douane*) were raised from 10% to 15% in 1989 and a levy of 3% was imposed on most imports a year later (*timbre douanier*). As a result, the average nominal duty rate, which declined from 60% in 1985 to 35% in mid-1988, was raised to the current level of 43%. Moreover, to combat under-invoicing, the government introduced minimum customs tax assessments on a large number of imports and broadened the use of reference prices. Thus, the manipulation of tariff rates for the purpose of revenue mobilization and protection, and the introduction of minimum customs assessments, basically reversed most of the tariff reforms achieved between 1986 and 1988. In fact, Senegal's protection system may have become more complicated by 1992 than it was during the pre-reform period.

2.32 Table 2.3 provides rough estimates [8/] of the effective rates of protection over the period 1985-90 and shows clearly the reversal in government trade policy. On average, the effective protection rates declined from 165% in 1985, before the reforms began, to 89% in mid-1988, when most QRs were eliminated and nominal tariffs were at their lowest levels. They, however, increased to 98% in 1990 as a result of the changes discussed above. In addition to these higher protection rates, recent changes reintroduced wide distortions in the incentive system among some industrial sub-sectors. The same table shows no conclusive evidence about the impact of the trade reforms on customs receipts. Customs receipts increased by nearly 13% in nominal terms between 1985 and 1987, declined by that much during 1988 and then increased by 24% in 1989. The only period which contradicted expectations was 1989, a year during which tariff rates increased. One possible explanation for the increase in 1989, in spite of fraud and under-invoicing, was the effort to reduce tax exemptions.

Domestic Trade Liberalization

2.33 As with other African countries, Senegal intensified, in the 1960s and 1970s, direct government intervention in agriculture and manufacturing pricing and markets. The adjustment effort during the its first phase attempted to reverse this

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8/ These rates were calculated ignoring the impact of QRs and assuming that value added averages were 20% of the value of final outputs and using prevailing nominal tariff rates for final goods and intermediate materials. If one assumes a larger value added ratio (say 30%), the average effective protection rates would be substantially higher: 235% in 1985, 123% in 1988 and 132% in 1990.

Table 2.3: Senegal Import Protection Indicators

	1985	*1986*	*1987*	*1988*	*1989*	*1990*
Average ERP (%)	165	111	111	89	95	98
Customs Receipts (CFAF,b)	73.4	79.4	82.7	73.6	91.1	
Effective Tariff Rates (%)	-	-	24.8	20.8	25.4	-

Source: Macroeconomic Update Report (SA Table 49), August 1992.

situation and had, in many respects, been successful. In agriculture, greater attention was paid to pricing policy as a means of stimulating production and shifting incomes in favor of rural producers.

Subsidies and Producer Prices

2.34 By the end of 1988, major subsidies in the agricultural sector were reduced or phased out, producer prices of food crops were slightly raised, producer prices of cash crops were slightly reduced, and the input distribution markets liberalized. Fertilizer subsidies were eliminated for all commodities except cotton. Producer prices for groundnuts, cotton and rice, remained, in spite of some adjustment from time to time, de-linked from the world market prices. 9/ A major study on agricultural prices and incentives was undertaken in 1988, but its recommendations were never implemented, in particular, the proposal to adjust the groundnut producer price to world market price. The groundnut producer price was nevertheless reduced in 1988 for budgetary reasons.

Consumer Prices

2.35 Prices of most consumer goods had been decontrolled in 1987 and 1988 and the office in charge of price controls was abolished in 1990. For manufactured goods, prices were decontrolled in tandem with the elimination of QRs. In addition, an effective price information system was set up for local cereals. In the case of the consumer price of rice, the government reduced the price further than was desirable. The consumer items for which prices remained under control were sugar, salt, tea, wheat, flour, pharmaceutical products, cement, electricity, petroleum products, water, transportation, broken rice, tomatoes and tomato concentrate, and cooking oil. The government's rationale for keeping prices of these items under control was for social and so-called strategic reasons.

9/ During the 1980s, groundnut prices were raised three times and reduced twice, cotton raised three times, and rice raised three times and partially reduced twice. At the same time, the world prices of these three commodities declined.

2.36 In energy, the government instituted, in 1991, a simpler and more transparent pricing and taxation system for petroleum products. Under this system, ex-refinery prices were set at import parity plus a fixed handling fee paid to the refinery company (SAR) to account for the relative inefficiencies under which it was operating. Prices to distributors were derived from ex-refinery prices by adding import duties and taxes. As a result, domestic prices were reduced in July 1991 (for the first time since 1986) by 5% to 25%, with the higher reductions applying to industrial petroleum inputs. The distribution of petroleum products and their prices are yet to be deregulated.

Market Deregulation

2.37 Most restrictions on domestic marketing of cereals other than rice were removed in 1986, thus creating a well-functioning market with many participants. The role of the rural development authorities (SRDRs) was drastically curtailed, the public enterprise handling input supplies (SONAR) was liquidated, and import controls on fertilizers were phased out. The distribution and collection of groundnut seeds, and the primary marketing of groundnuts were privatized. The monopoly on skins and hides of the public enterprise SERAS was abolished (and the enterprise was later privatized). Other reforms envisaged by government included the limitation placed on market intervention of the food security commission (CSA), the separation of the rice operation from the Caisse de péréquation et de stabilisation des prix (CPSP), and participation of private importers in rice importation and trade. Of these actions, the only measure effectively implemented was the first one. In the rice sector, the government felt the need to manage the distorted domestic prices to justify almost complete control of the activity by the public sector. In 1987, the following actions were introduced in the groundnut sector: the reduction of domestic primary marketing costs and the introduction of the private sector into the area of marketing. The sugar sector, consisting of a private company (CSS), enjoys a monopoly of production and imports under a long-term convention with government which runs to year 2000. The rice sub-sector remained inefficient and distorted the whole domestic cereals sector in favor of rice, to the detriment of locally produced maize, sorghum, and millet which cost far less to produce. Another key action was the abandonment by government of the principle of special agreements (*conventions spéciales*) (see para 2.89).

Labor and Wage Policy Reform

Background

2.38 At the start of the labor and wage reform process in 1986, the modern sector labor market was heavily regulated by government [10/] and suffered from a highly

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10/ Government was an active partner in tripartite annual bargaining by which basic wage levels were determined for 27 industry groups (agricultural and domestic were excluded). Government acted as both an arbiter between the unions and employers, and as an enforcer in the wage agreements published by decree and applicable to all employers, regardless of whether they participated in negotiations or not. Industry wage scales were set in reference to the minimum wage (SMIG) which government revises on an infrequent basis.

adversarial system of industrial and labor relations. Hiring and firing practices as well as wage setting were regulated by the government through various labor laws; in particular the labor code, which has been in existence since 1951, the 1981 collective bargaining system, [11/] and the civil service statutes. Whereas, these regulations were intended to advance workers' welfare, they had instead resulted in higher production costs, low productivity, limited investment and job creation.

2.39 In Senegal, as in other African countries, wages in the modern sector are influenced largely by wages paid by the government, which is the major employer (employing 68,000 out of a total modern sector employment of 131,000 in 1986). [12/] Real civil service salaries and wages in the modern sector had declined during 1980-85, but remained relatively high in comparison with other countries (see para 3.11). To compensate for this, salary and wage supplements and benefits had increased dramatically over time, representing 25-30% of compensation in 1986. [13/] At the level of the entire industrial sector, Svejnar found that total factor productivity had declined annually by 5-7% during the 1980-85 period. [14/]

2.40 Because of their inability to lay off workers without passing through an elaborate and time-consuming process of government approval, employers resorted more to temporary and less to permanent workers. Even the recourse to temporary labor was associated with difficulties. The labor unions, which fought for the country's independence, remained influential though their position weakened since 1976 as a result of the reintroduction of trade union pluralism. [15/] The tripartite system (unions-employers-government) was characterized by deep mistrust, especially between the unions and employers. In the civil service, the government policy of guaranteeing job security (through, for instance, automatic hiring from training schools) and wage security (by dissociating wages and salaries from performance) had significantly contributed to a large and less productive civil service.

11/ While bonuses and incentive payments were negotiated freely, the "convention collective", agreed in March 1981 between the unions and the employers, established the rights of workers to a wide range of additional benefits whose calculation was fairly rigidly defined by various factors, including basic wage and length of employment, and which are important in total worker remuneration.

12/ See Berg (1990), p. 12.

13/ According to a 1986 survey quoted by Svejnar and Terrell (1988) p. 113, average wages for unskilled workers were about 20% higher than the SMIG with the non-wage element of remuneration approaching 30% of total compensation. In 1985, the average annual wage and benefits in the civil service was about CFAF 2.86 millon, of which benefits represented CFAF .725 million or 25%. See Dennis (1991).

14/ See Svejnar and Terrell (1988) p. 113.

15/ See Ka and Van de Wall (1992) pp. 52 and 53.

Design and Implementation of Reforms

2.41 Improved functioning of the labor market was identified as a major element of adjustment in Senegal. Strong labor market rigidity, high nominal wages and low productivity were impediments to new investment and employment creation. However, only limited reforms were implemented, namely, the abolition of the labor office in 1987 and, consequently, the liberalization of hiring practices, and the partial relaxation of constraints on the use of temporary employment contracts (the maximum period for such contracts was extended from 6 to 12 months.) An attempt to revise critical provisions in the labor code had failed and the modified code was not approved by the National Assembly due to deep-seated vested unions' interest and fear of triggering social unrest on the eve of the 1988 general election.

2.42 Furthermore, the use of temporary labor was significantly relaxed in 1989. For all firms, the maximum period for such contracts was extended to 5 years, and in firms in the industrial free zone and those benefiting from the investment code, the period was unlimited. The general payroll tax *(contribution forfaitaire)* of about 3% and the income tax normally paid by employers were both eliminated in 1989 for new and expanding firms. A tripartite Committee made of government, employers' associations, and labor unions was formed in January 1990 to examine existing labor legislation and industrial regulations. Therefore based on an in-depth study of the labor market in Senegal conducted by ILO in 1990, the government decided that a complete revision of the labor code would be preferable to the modification of a few articles of the code. To maximize the chance of success for adopting a new labor code, the government took concrete steps to inform and educate the public and the unions on the importance of liberalizing the labor market. The labor code has now been revised and submitted to the National Assembly for ratification. Among the key changes made in the labor code is the complete delinking of the minimum wage (SMIG) from the different industry specific minima, the encouragement of collective bargaining at the firm level, and the quasi total liberalization of firing practices.

2.43 In the case of the public sector, government has also decided to abolish the automatic recruitment from training schools in 1990, downsize the civil service through a voluntary departure program, rationalize the wage benefits, and freeze the minimum wage (SMIG). With the exception of the latter, none of the other measures have been effectively implemented. Labor market rigidities are still present in Senegal though their effectiveness seems to weather off with the expansion of the informal sector. In the civil service, real average salaries have declined by 30% during the first period and then increased by 24% during the second period under consideration. As indicated in Table 2.4, it is highly paid civil servants who saw their real wages decline faster than those paid the least. In other words, the salary differential in the civil service has narrowed from 1:8 in 1980 to 1:6 in 1990. Wages in the informal sector are believed to be a third of prevailing wages in the formal sector.

Table 2.4: Senegal Real Wages and Salaries Indices (1980 = 100) a/

			Civil Servants Salaries		
	Year b/	*SMIG*	*Minimum*	*Maximum*	*Average c/*
	1980	100	100	100	100
	1981	99	94	94	94
	1982	91	88	81	85
	1983	94	85	74	81
	1984	85	76	66	78
	1985	78	70	59	70
	1986	74	66	55	72
	1987	77	69	58	77
	1988	78	70	59	81
	1989	85	76	59	86
	1990	85	75	59	87
Growth	1985-80	-21.7	-29.7	-41.3	-29.9
Growth	1990-85	8.6	7.4	0.4	24.2

a/ Deflated by consumer price index for the average Senegalese family.
b/ Fiscal year 1980/81 is shown under calendar year 1980.
c/ The difference between the earnings (represented by this column) and rates data (by the previous 2 columns) can be explained by promotions and fringe benefits.

Sources: Senegal Macroeconomic Update Report (SA Tables 20 and 22), August 1992; and Senegal - An Economy under Adjustment, Report No. 6454, 1987, p. 89.

2.44 The partial approach to labor market reforms proved ineffective. Although the comprehensive and less confrontational approach followed recently has yet to yield results, it proved to be useful in terms of public awareness and strong ownership of the reform program (see Box 2.2).

Box 2.2: Government Ownership: Two Different Approaches to the Revision of the Labor Code

The manner in which the Government of Senegal attempted to revise the Labor Code provides a useful lesson for the design of future reforms in Senegal and elsewhere. In 1987, the approach adopted by the government consisted of tackling directly selected articles in the Labor Code, dealing with hiring and firing (Article 35 and 47). There was little, if any, discussion with the social partners concerned (employers association and labor unions). No public discussion of the merit for these reforms took place either. The end result was that the revised Code was not adopted by the National Assembly; it was seen as imposed by the donors.

In 1990, the approach adopted was the complete rather than partial revision of the Code. And in the process, the social partners have been involved in all stages of the process: analytical work, discussion and drafting. The initial preparatory work was facilitated by an ILO expert who had established good rapport with the unions and the employers association. The outcome of this effort was the establishment of a tripartite Committee, including government, unions and employers, to work with the help of another international expert in revising completely the Code. Terms of reference for the consultant were cleared by all parties concerned, as was the selection of the consultant. A very experienced consultant was selected for assisting the tripartite Committee in its work. The consultant happened to have easy access to both the head of CNTS, the main labor union, and the President of Senegal. Parallel to this effort, ILO was also commissioned to carry out an in-depth study on the wage setting system in Senegal. The study served as a valuable input into the process of the revision of the Code.

Once there was a revised draft of the Code, the government undertook a public campaign led by high government officials during a six-month period to sensitize public opinion to the need for labor market flexibility and liberalization. Thus, a first public debate was held in March 1991, a presentation of the issue at the National Assembly was made by the Prime Minister in June, and in July, an employment symposium and a workshop for the labor inspectors were organized. The revised Code was submitted to the National Assembly in September 1991 and has yet to be approved.

The process of revising of the Code was lengthy and time-consuming, taking about two years between the time of the establishment of the tripartite Committee and the submission to the National Assembly, and for a number of studies to be completed. Nevertheless, the ownership of the new code belongs to Senegal and not the Bank or outside consultants. Those who will benefit and oversee the implementation of the Code have been directly involved in the process of preparation and revision.

C. Institutional and Other Policies

Financial Sector Reforms

Introduction

2.45 Prior to the 1989 banking reform program, Senegal's banking system consisted of fifteen banks, eight of which were publicly owned development banks, five controlled in one way or another by the government and two fully foreign-owned banks. [16/] In 1987, eight of the fifteen banks were in distress, of which four were government-controlled development banks. BIAOS and USB also figured among the distressed banks.

2.46 In spite of the drastic nature of the reform (closing seven of the country's fifteen banks) and the joint intervention of several donors (World Bank, BCEAO, U.S., and France), the banking sector reform must be considered—except on the issue of debt recovery—the most successful reform of all the reforms undertaken by Senegal in the 1980s. This achievement owed a great deal to the very active role of the BCEAO whose views on bank restructuring were very close to those of the foreign donors involved in the operation and to the leadership of the then Minister of Finance. Also, after some hesitation at the start, the government showed great political courage in closing several of the country's development banks with its accompanying negative impact on employment. Commonality in approaches and close coordination among donors played an important role in the success of the reform. It is important to note that Senegal was one of the first countries in the region to undertake such a significant reform of the financial sector.

The Origin of the Crisis

2.47 Senegal's banking sector crisis is due to an array of factors. Some are specific to the *management of the banks* which, in spite of the presence of foreign shareholders in the management structure (the case of USB), is generally poor and lacks internal control on lending decisions. Other factors include excessive government interference ranging from, pressure to lend to uneconomic public enterprises, to forced credit allocation (particularly for agriculture), and a legal framework—all of which made it difficult for banks to take legal action to collect bad debts. Unfavorable economic conditions such as droughts, adverse shifts in the terms of trade, appreciating real exchange rates, and heightened competition brought about by the rapid liberalization of

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15/ Among the development banks, the Banque Nationale du Développement Sénégalaise or BNDS, was the country's largest bank in terms of total assets. The three largest banks in terms of non-government deposits are associated with foreign banks, primarily French banks; they are SGBS, BIAOS, and BICIS. The Union Sénégalaise de Banque (USB), in which the state has a majority share-holding, is associated with French Credit Lyonnais which exercises managerial control. The remaining banks are small in size; most were created as specialized banks: housing bank (BHS), industry and tourism (SOFISEDIT), and agriculture (CNCAS).

the economy have reduced the borrowers' ability to service past loans, further exacerbating the situation. Finally, the Senegalese banking sector's problems were, to some extent, due to weaknesses in the credit policy and to the rules and regulations of UMOA.

2.48 The past readiness of the *government to guarantee* the borrowing of uneconomic public enterprises has greatly undermined the system. Of the CFAF 144 billion of bad debts held by failing banks, more than 20% were loans guaranteed by the government. These loans represent a way for the government to circumvent the 20% rule limiting its borrowing from the Central Bank. These loans were considered risk-free but had a de-stabilizing effect on bank balance sheets once the government failed to honor its guarantees. Furthermore, the complexity of the *legal framework* in Senegal and the absence of implementation guidelines made it difficult for banks to take legal action to collect bad debts. The national credit committees' discretionary power to fix *bank-by-bank credit ceilings* had also given rise to large-scale government interference in the banking system to the benefit of the weakest banks who were provided with higher credit ceilings than for healthy banks, thereby prolonging the existence of sick banks at the expense of healthy ones.

2.49 The management of *crop marketing credits* was another major source of the problem. Crop credits are short-term advances that finance the full collection cost for agricultural products from producer through final sale. Since reimbursement is generally expected within the year, they have not been subject to credit ceilings. Serviced only sporadically, these non-reimbursed crop credits have tended to accumulate, becoming a major burden on the banking system, absorbing a good part of annual increases in credit ceilings, and crowding out the productive sector. ONCAD, Senegal's defunct groundnut marketing and processing agency, is a case in point. Its dissolution in 1982 left BNDS holding non-reimbursed claims totaling CFAF 94 billion. The major local banks were obliged to take up shares of the outstanding balance. Thus ONCAD's refinancing not only crowded out other borrowers in 1982, but has remained a source of balance sheet problems for the banks involved.

2.50 Because of the division of responsibility between BCEAO (responsible for inspection) and national authorities (responsible for overseeing the implementation of corrective measures), control of banking operations was ineffective. Some banks had not been visited by the BCEAO for several years. Even in cases where BCEAO recommended sanctions, the government often did not comply. As a result, prudential rules have eroded. Problems began to emerge as banks were under political pressure to make loans to failing public enterprises via government guarantees and BCEAO rediscount facilities.

2.51 Furthermore, there were no applied accounting standards and prudential rules applying to liquidity positions were increasingly being disregarded. Since BCEAO did not enforce sanctions on banks which continued to credit accrued but unpaid interest by non-performing loans, ailing banks' balance sheets may have portrayed a stronger balance sheet than was actually the case. Instead, problem banks had preferential access to BCEAO rediscounting as well as to higher credit ceilings, which allowed their balance sheets to deteriorate even more. The BCEAO also perpetuated problem banks through one of the mechanisms of the money market whereby healthy banks, with excess liquid deposits, were constrained by restrictive credit ceilings, and forced to lend their excess liquidity to sick banks. Consequently, liquidity problems only surfaced when banks were finally unable to honor checks drawn upon them. The distressed banks resorted to borrowing from BCEAO. However, in 1988 BCEAO stopped providing them with additional refinancing facilities and their operations came to a halt. Table 2.5 summarizes the financial situation of the Senegalese banking system as of September 30, 1988.

Table 2.5: Summary Situation of the Banking System, 1988
(CFAF billion)

	Distressed Banks	*Sound Banks*	*Total*
Loan Portfolio	323	166	489
Non-Performing Loans	233	6	239
Capital and Reserves	36	29	65
BCEAO Refinancing	167	30	197

Source: Senegal Financial Sector Adjustment Program, World Bank (1989a), p. 4.

2.52 The severe liquidity crisis which hit the distressed banks rapidly affected the other banks. By late 1987, the Senegalese economy was forced to operate practically without the benefit of bank intermediation. Furthermore, BCEAO's consolidation on concessional terms (15 years, including three years' grace, at 3% interest) of most of BCEAO's claims on the banks to be restructured or liquidated was not sufficient to reestablish confidence in the system. A more drastic reform was necessary, affecting the development banks where government's interference has been the heaviest.

Design of the Reform Program

2.53 In October 1987, the government consulted the IMF, the Bank, and bilateral donors (France and the United States) with a view to restructure the ailing banks. BCEAO saw the extensive banking crisis in several member countries in late 1988 as an opportunity to restructure the banking sector and to lay a foundation for developing modern, responsible capital markets. While the restructuring or closing of the ailing banks was the more spectacular aspect of the reform, more important changes took place in the policy affecting the banks' operations in general.

2.54 The reform program consisted of five key measures:

- a drastic restructuring of distressed banks which, with the injection of additional capital, would experience a positive net worth and meet minimum capital adequacy requirements (BIAOS, USB);

- a closing of distressed banks for which no substantial injection of new capital was expected (BNDS, SOFISEDIT, SONAGA/SONABANQUE, ASSURBANK, BSK);

- a sharp reduction of abusive practices such as forced crop credits and government guarantees on parastatal borrowing, and a reduction of government ownership of banks to less than 25%;

- substantial reforms in credit policies and in bank legislation, supervision and practices (bank-by-bank credit ceilings, sectoral credit targets, prior authorization mechanism, interest rate policies);

- recovery of bad debt; and

- studies of grass-roots mutual credit schemes.

2.55 The government of Senegal, after two years of attempting to save most of the development banks, adopted in June 1989, a comprehensive strategy to restructure the banking system. The strategy consisted of maintaining only banks that, after restructuring, could become profitable, solvent, and liquid; reducing government interference in the banks management through privatization and by limiting the government's equity share in banks to a maximum of 25%; and developing a global financing plan with projected annual government contributions compatible with the government budget.

2.56 When shareholders agreed to rehabilitate the banks under their control, the restructuring would include restoration of the banks' financial situation through shareholder equity or quasi-equity contributions to offset losses and recapitalize the banks to a level compatible with sound banking standards. In addition, staffing would be reduced, costly branch networks pruned and changes in management introduced. When the financial requirements for rehabilitating a bank are beyond the resources of its shareholders, as in government-owned or controlled banks, the balance sheet would be split into a "sound balance sheet" representing the performing loans and a "liquidating structure" representing non-performing assets. This procedure would apply to five government-controlled banks.

2.57 The envisaged reforms would sharply restrict the abuse of crop credits and government guarantees on parastatal borrowing which, in the past, jeopardized bank profits. They would also provide a market-oriented determination of interest rates (patterned after Paris rates), and would widen banking margins—all of which should improve bank profitability. In 1989, the UMOA Council of Ministers decided to introduce measures that would make the bank-by-bank credit ceilings allocations more flexible. The system of targeted credit objectives going to sectors designated as "priority" was eliminated. The prior authorization mechanism required for loans exceeding CFAF 70 million was raised to CFAF 300 million. The Council of Ministers agreed that the BCEAO would (a) channel all rediscounting needs through the money market, which it would continue to intermediate at the administratively determined rate; and (b) meet demand for borrowing in excess of money market deposits through a last-resort facility of the central bank.

Implementation of the Reform Program

2.58 Two banks associated with private Senegalese investors whose foreign majority shareholders wanted to stay in business during the restructuring period were: BIAOS (65% is owned by the French BIAO Group) and MASSRAF (partly owned by Saudi Arabian interests). The government also closed four of the five development banks and two commercial banks in which it has majority ownership. In addition, it took steps to prevent the recurrence of past practices by reducing its capital share (directly and indirectly) in all banks except CNCAS where no suitable buyer can be found, to a maximum of 25%, which is less than is required to be a blocking minority. In short, with minor exceptions, the bank restructuring process was completed more or less on schedule.

2.59 BCEAO has been responsible for making changes in the banking legislation and supervision. It has successfully implemented the proposed reforms as discussed above (para 2.57). To reform prior Bank supervision procedures, first, a UMOA zone-wide control commission was established October 1, 1990 with supra-national authority. Second, banking laws and regulations were revised to prevent the recurrence of past excesses and to bring them in line with practices in other countries. The BCEAO obtained support from France and the IMF to strengthen its inspection department.

2.60 In contrast to the government's prompt and courageous decision to close several banks, efforts toward debt recovery were weak and erratic. As of the end of 1989, government estimates indicate that approximately CFAF 32 billion (about US$100 million) of the CFAF 144 billion (about US$450 million) of non-performing credits of the banks to be restructured can ultimately be recovered over the period 1990-93. This amount would repay depositors whose assets were frozen at the time of restructuring and permit the government to service the debt it undertook to carry out the reform program. In this connection, the government established a recovery agency, staffed in part by personnel laid off by the restructured banks, whose task is to recover the bad loans of the restructured banks through seizure of debtors' assets, loan rescheduling, and other arrangements. To recover the bad debt and to ensure progress, a data bank of all delinquent debtors of the banks being restructured was prepared by an independent auditor. Progress on recovery has been followed by a Blue Ribbon Committee established by the Minister of Finance.

2.61 The adoption of the above measures have taken longer than was necessary. Government's hesitancy to pursue the large debtors, most of whom are politically well connected, accounted for the lack of success in this critical area. The implications of these developments are more significant than the foregone revenue from debt recovery.

The fact that large debtors continue to be perceived as above the law, in part, explains the reluctance of banks to commit important sums for long-term investment projects.

2.62 The total cost of the reform of the banking system was estimated at CFAF 275 billion. Of this, about CFAF 198 billion has already been secured through a consolidation of CFAF 146.5 billion from BCEAO on concessional terms, a sectoral adjustment loan of CFAF 31.7 billion (IDA plus cofinanciers), and the recovery of bad debts, estimated at CFAF 20 billion. The remaining CFAF 77 billion is expected to be covered through a further consolidation from BCEAO and the continued recovery of non-performing loans.

2.63 To develop a nationwide network of grass-roots mutual credit institutions, the Ministry of Finance, with the Canadian government, has gathered information to better understand their successes or failures with the view to create mutualist institutions in urban areas not covered by these initiatives and work out an action plan for a banking system.

Public Enterprise Sector Reform

Background

2.64 The government's PE sector had expanded in the 1970s through nationalization and the creation of new agencies. For a host of factors, including soft budget constraints, lax hiring policies and the lack of performance incentives for managers, the sector became increasingly deficient and reforms became critically needed.

2.65 In 1986, the sector as a whole (including the banking sector) consisted of 85 enterprises, of which 25 were classified as non-commercial or administrative entities. [17] The sector accounted for 29% of total investment in the economy, 17% of total employment and 7% of GDP. Net losses of the sector (after taxes and before subsidies) represented about 2% of GDP and 9% of government revenue. The government's equity share in the sector represented 72%. The financial performance of the non-financial PEs was poor, resulting in financial losses and corresponding budgetary subsidies. In addition to these budgetary transfers, the sector enjoyed other explicit transfers, such as loans from the Treasury and debt servicing, and implicit transfers, such as tax exemptions, loan guarantees, preferential interest rates, and distortions from price controls. These enterprises accounted for the bulk of the credits to the economy (95% of long-term credits, 15% of medium-term, and 25% of short-term over the period 1985-87.) A large number of these loans were non-performing and thus contributed to the banking sector crisis.

17/ The information on this sector comes from the President's Report of SAL IV, p. 22 and the 1989 Parapublic Sector Review. It may not be fully consistent with SA Table 6 which includes additional small, administrative agencies and agencies that were already liquidated.

2.66 The PE sector reform in Senegal dates back to the late 1970s [18], but in 1986 became part of government's medium-term economic and financial rehabilitation program (PAML), supported by three SALs, a Financial SECAL and a second TA project. The objectives of Senegal's reform policy in this sector are no different than those pursued by other countries: i.e. government's withdrawal from enterprises which the private sector could manage better, and improved efficiency of the PEs that remain under government control. Until 1985, the government strategy had not been clearly articulated and reaffirmed the end of the nationalization policy, the strong ex-ante supervision of PEs and the establishment of a system of "program contracts" (*contrat-plan (CP)*), a new feature that was intended to equip individual PEs with a medium-term strategy and to clarify the relationship between the government and individual PEs. [19] In 1985, the government adopted a clear strategy which was further detailed in 1989. The strategy consisted of the following elements: privatization and liquidation of selected PEs, improvement in management and performance of the remaining PEs, simplification of the sector control procedures, streamlining of the relationship between the government and PEs, and improvement in portfolio management information.

Design of the Reform Program

2.67 Albeit a late start in formulating a clear PE sector strategy, the Senegalese sector reform program has been comprehensive, based on analytical work, and supported by technical assistance (TA) over a long period. Two sector reports were prepared by the Bank in 1981 and 1989 which provided government with an overall framework for the reform, and led to the government's formulation of a comprehensive sector strategy. A number of audit reports and specific policy studies [20] were also carried out. Two specific Bank TA projects were approved in 1977 and 1983 which focused essentially on institutional building and information management, targeting both the enterprises and the supervisory agencies.

2.68 The divestiture strategy has somewhat shifted in recent years. Up until 1986, the government focused on privatizing non-performing PEs, and on tackling the privatization directly. This changed in 1987 and more importantly since 1990, when government started with profitable enterprises and strengthened the process of privatization which, as a result, became more transparent. To achieve the objectives of reducing the budgetary burden of the PE sector and increasing its efficiency through greater financial discipline, the government hardened the budget constraints on commercially-oriented PEs (reduction of operating subsidies, settlement of cross-debts,

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18/ A Public Enterprise Sector Review in 1977 led to a series of reforms supported by the First Parapublic Sector Technical Assistance Project (PPTA1). At its completion in 1983, a second project (PPTA2) was initiated.

19/ In addition to these two policy decisions, the government also agreed under SAL I to return to the private sector small and medium-sized units in the productive sector and to close units that were found to be inviable.

20/ These studies addressed such major policy issues as indirect subsidy levels, cross-debt, and special conventions or concessions.

elimination of implicit subsidies, and elimination of overdraft facilities) thus forcing the PEs to restructure or get liquidated. The elimination of overdrafts was deemed necessary to close a loophole that PEs exploited while complying with the reduction in direct subsidies. One important shortcoming in the design of the reform program is the large number of enterprises to be privatized (some of them quite complex involving legal and labor issues) and the large number of contract plans to be signed in a relatively short period. In terms of sequencing, it can be argued that privatization was attempted much too early. The regulatory and incentives framework must be reformed first to create a favorable environment conducive to private sector investment.

2.69 The emphasis on PE reform in Senegal's adjustment program was not misplaced. It was consistent with the findings of the World Bank Second Report on Adjustment Lending that the public sector reform program aimed at reducing the public sector fiscal deficit should have high priority in most adjusting countries. [21/] However, the design of the PE sector adjustment program was characterized by too much explicit conditionality which, given the institutional nature of the reforms and the lack of financial support as specified in the CPs, proved to be difficult to implement during the course of adjustment.

2.70 On the institutional and legal front, the government approach was sound. It consisted of the creation and later the strengthening of a focal parastatal agency (DRSP), the only agency outside the Finance Ministry responsible for formulating, managing, and monitoring the reform program of the PE sector. This central agency was also responsible for contract plans supervision; strengthening the PE unit in the Treasury by giving it the authority and responsibility for overseeing the financial relations between PEs and government; curtailing the roles of the other supervisory agencies to *a posteriori* monitoring of compliance with legal requirements; and improving the composition of PE Boards of Directors. The DRSP reports directly to the Office of the President and is currently headed by a senior civil servant with the rank of Minister who is pragmatic in his approach to the reform program.

Implementation of the Reform Program

2.71 The implementation of the program has been uneven across the three main components and over the years, good to fair on the legal, institutional and rehabilitation front; fair to poor on the financial side; and, until quite recently, poor on the question of privatization. Implementation of most PE reforms has been plagued with significant delays; a clear indication of the complexity and the institutional nature of the issues and the inappropriate sequencing of the reform, as well as the lack of government will in tackling tough reforms, particularly those having an impact on the Treasury and social stability.

2.72 The Government has changed the law on the organization and control of the PE sector, but the decrees required for its enforcement are yet to be issued. The

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21/ RAL II, para. 1.27.

agencies in charge of implementing the program have been streamlined and rationalized. A total of 24 (out of 44 planned) contract plans and "letters of mission" between government and selected PEs have been signed. While the adoption of CPs has improved transparency and accountability of the two contracting parties, which is not a small achievement, it has run into problems with the financial implication of the CPs. As John Nellis noted, "tariff regimes have been specified, investment programs stated, non-commercial operations cost out and compensation arranged for, and operating subsidies set—but in case after case the government has proven unable or unwilling to honor the financial commitments agreed upon; and the agreements have had to be repeatedly and extensively revised, or fallen into abeyance." [22/] Concerning the restructuring and rehabilitation component of the reform program, a total of 10 PEs (out of 27 planned) have been completed.

2.73 On the financial front, the government has implemented the reforms in "letter but not in spirit." Indeed, while the government reduced direct subsides to PEs, PEs have resorted to commercial bank overdrafts and government guarantees for borrowing, thus precipitating the financial crisis of the banking system, and accumulating arrears when the overdraft facilities were no longer possible (see SA Table 7). The settlement of cross-debt arrears between government and PEs has been carried out twice (on the basis of stock arrears at the end of 1986 and 1989), but the problem reappeared again, though to a lesser extent, because of the concurrent implementation of preventive measures. The magnitude of the arrears at the end of 1989 was large and their impact on the PEs working capital and tax payment was significant. The settlement of these arrears was a complex undertaking [23/] which cannot be repeated indefinitely, and unless preventive measures, similar to those adopted in 1991, are put in place, the problem will occur again. As a good start, the government focused on the three utility companies (water, electricity and telephone) with apparently some encouraging success.

2.74 The performance of the divestiture program for both financial and non-financial PEs is shown in Table 2.6 and Figure 2.1. Over the entire reform period, government has liquidated 21 PEs and privatized (totally or partially) 26 others, together representing 42% of the total number of PEs in the sector. In terms of assets and government equity, these PEs represent only 19% and 11% of the sector, respectively.

22/ John Nellis, "Public Enterprise Reform in Adjustment Lending," Working Paper No. 233, World Bank, August 1989.

23/ The process of cross-debt settlement consists of identification and verification of the debt, negotiation of a settlement agreement between the concerned parties, and reflection of the terms of the agreement in the books of the concerned parties. At the end of December 1989, total debts owed by non-financial PEs (60 of them) to government amounted to CFAF 57.4 billion and debts owed by government to PEs amounted to CFAF 48.9 billion. After the mutual cancellation of debts and write-offs, and enterprises liquidated and privatized, total debts owed by PEs to government dropped to CFAF 5.6 billion (or 9.8% of the original amount) and debts owed by government to PEs dropped to CFAF 1.2 billion (or 2.5% of the original amount). These remaining debts are being settled over a period of three years, with only a few exceptions. Concerning the cross-debt between the PEs themselves, about 80 agreements had been signed as of October 1991 and about CFAF 8 billion (representing 60% of the total debt) had been settled.

Table 2.6: Senegal Actual Divestiture Program, 1980-91
(in percentage)

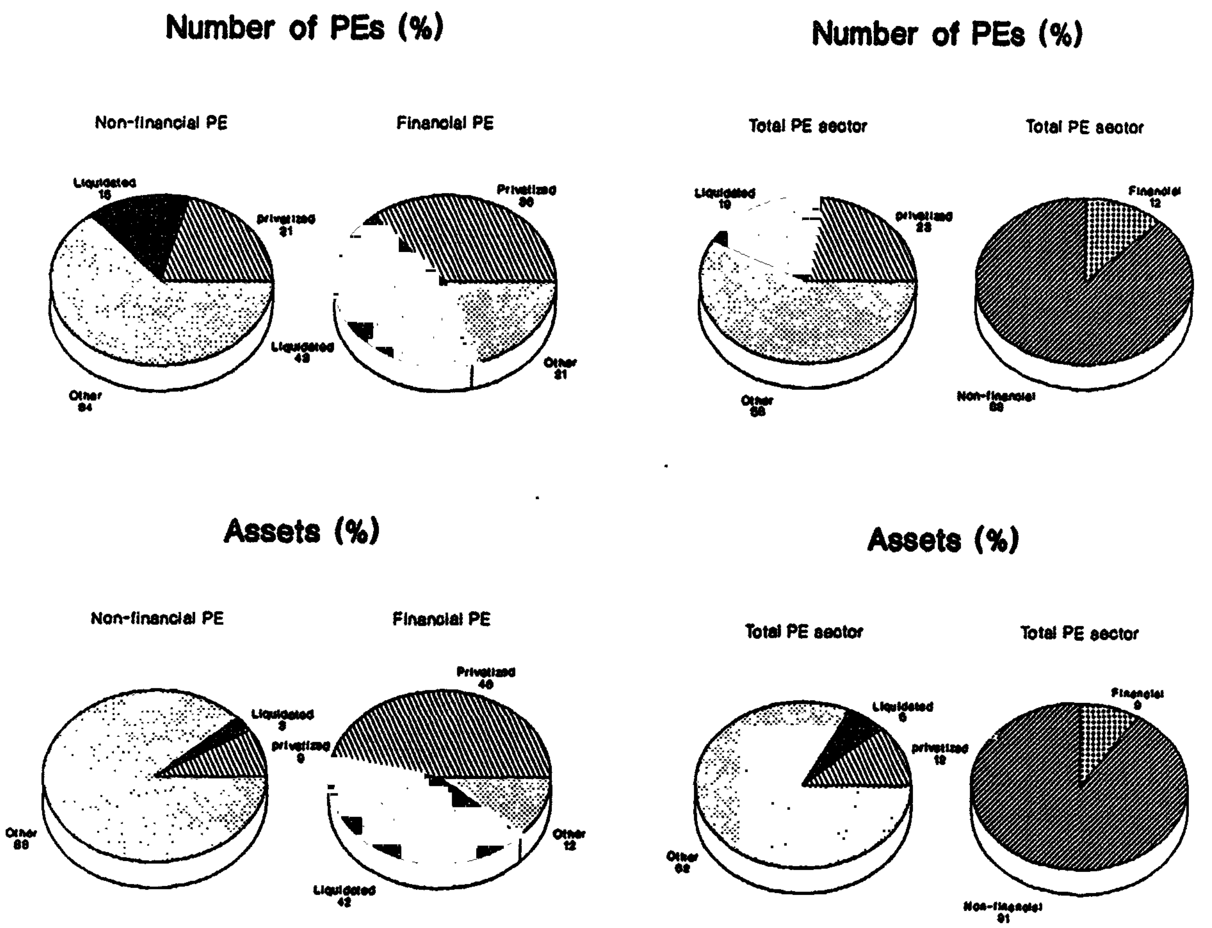
Actual Outcome	*Number*	*Assets*	*Govt. Equity*	*Govt. Equity as % of Assets*
Non-fin./Sub-Sector	36	12	6	38
Privatized	21	9	5	40
Liquidated	15	3	1	33
Financial/Sub-Sector	79	88	79	44
Privatized	36	46	31	32
Liquidated	43	42	48	57
Total/PE Sector	42	19	11	41
Privatized	23	12	6	37
Liquidated	19	6	4	48
of which:				
SAL IV	25	10	5	37
FSECAL	6	5	4	51
Total/PE Sector	100	100	100	72
Non-financial	88	91	94	74
Financial	12	9	6	49

Note: Data may not add up due to rounding.
Source: SA Table 6.

The disproportionate percentages between the number of PEs privatized and liquidated, and the size of their assets and equity, reflect the fact that the three utility companies (electricity, water and telephone) were not part of the divestiture program. They alone account for 33% of the sector's assets and 46% of government equity. A breakdown of the PE sector between financial and non-financial sub-sector shows that the divestiture process is 80-90% complete in the financial institutions and far from being complete in the non-financial PEs (36% in terms of numbers, 12% in terms of assets, and 6% in terms of government equity).

2.75 The progress made in the divestiture program is very recent. About 75% of the total number of PEs privatized and liquidated and 80% of their assets and government equity took place during 1989-91. There are several reasons for this recent positive development: the focus on profitable companies, the budgetary financial squeeze on PEs, the improvement in the transparency of the privatization process, and the appointment of a dynamic and pragmatic head of the PE reform implementation agency. Had the government not insisted on certain conditions (higher prices and no reduction in personnel), and had the private sector enabling environment (including the development of a secondary market) been in place, the privatization performance would have been much better.

Figure 2.1: Senegal PE Divestiture Program



Source: SA Table 6.

Social Sector Policies

2.76 The primary objective of the adjustment program in Senegal has been to increase per capita income and to generate employment, and, in doing so, improve the social conditions (namely, nutrition, primary health care and basic education). A more active and direct approach to raise the standards of living of the poor has been pursued since 1987 in the context of Bank supported adjustment operations (including the first Human Resources SECAL approved in 1991). These operations establish mechanisms to create jobs to minimize the adverse short-term impact of adjustment, and to secure adequate provisions in the budget for basic needs fulfillment. To further improve the standard of living, Senegal has adopted an action plan to control growth rate of the population.

Job Creation Programs

2.77 In 1987, a National Employment Fund (FNE) and a government agency in charge of insertion and re-insertion (DIRE) were created under SAL III to ease the transition of laid-off workers in the parapublic and industrial sectors and to stimulate voluntary departures from the civil service. A recent evaluation study of this program, which was conducted by the Bank concluded that the cost effectiveness of the employment fund has been mixed. Only 1,500 jobs were created between 1988 and 1991 at a cost of US$11,000 each, which is relatively high given the magnitude of the unemployment problem in Senegal.

2.78 A major component of IDA's Public Works and Employment Project (AGETIP) has been to identify rehabilitation and maintenance work needed in urban areas to be undertaken by small contractors using labor intensive methods. The project has been very successful in creating 2,000 person-years temporary employment over a two-year period. Apart from creating short-term employment, thus easing the initial employment costs of adjustment, the project has helped to increase the long term skills of both small contractors and their temporary employees.

Public Expenditure Restructuring

2.79 While the adjustment effort has focused on improving the composition of the investment program since 1986, it is only recently that emphasis has been placed on restructuring the government budget to ensure allocation of adequate resources to primary health care and primary education. The voluntary departure program has been designed to preserve adequate recruitment of primary school teachers and to protect allocations to social sectors during budget cuts. Results of the recent Public Expenditure Review (PER) indicate that while the health sector benefitted from restructuring of expenditures in favor of primary health care during the 1980s, not much restructuring took place in the education sector.

Table 2.7: Senegal Resource Allocation to Social Sectors, 1980-90
(Real Index, 1980=100)

	Annual Average		
	1980-85	*1986-90*	*% Change*
Total Recurrent Expenditure	108.2	98.5	-9.0
of which: Education	96.3	96.5	0.2
(higher)	88.7 a/	95.5	7.7
(wages)	96.4	102.1 d/	5.9
Health	90.7	71.6	-21.0
(wages)	90.1	77.3 d/	-14.2
Total Investment	85.1 b/	58.7	-31.0
of which: Education	85.1 b/	64.1	-24.6
Health	85.1 b/	82.0	-3.6
Wages as % of sector recurrent expenditure			
Education	70% c/	74% d/	6
Health	68% c/	73% d/	9
Enrollments by level of education (000)			
Primary	509	662	30
Secondary & Tertiary	123	176	43

Annual averages for the following periods: a/=1983-85, b/=1981-83, c/=1981, d/=1989.
Sources: Macroeconomic Update Report (SA Table 43), Higher Education Report, and PER.

2.80 In the health sector, real recurrent expenditures were the hardest hit and dropped by 21% between the first and the second halves of the 1980s (Table 2.7). Total amount allocated to the health sector under the recurrent budget has fallen considerably from 0.9% of GDP in 1980 to 0.6% in 1988. The balance between salaries and wages, and materials and supplies, continued to deteriorate, with the ratio rising from 2:1 in 1982 to 3:1 in 1989. The PER report notes that there is ample evidence that the adequacy and quality of health delivery services in the public sector have deteriorated significantly over the last decade. One positive development in health expenditure has been, however, the increase in the share of total health sector expenditures (recurrent and investment) on primary health care from 48% in 1981 to 62% in 1989. Related to this is the improvement in the regional balance of per capita health expenditures.

2.81 In education, recurrent expenditures remained constant in real terms during the 1980s. However, higher education experienced an increase at the expense of primary education. This was compounded by the fact that non-wage recurrent expenditures were squeezed hard, dropping to just about 10% of the wage cost. As a result, the quality of education services deteriorated at all levels. Expenditures in the sector were excessively weighted towards higher education during the latter part of the 1980s. These figures do not fully measure the failure of education policy because they mask the inefficiency of high wastage and failure rates, especially at the university level. Cost per student show vast disparities, with costs at the university level 18 to 20 times the cost of elementary education.

Institutional and Legal Reforms

2.82 A number of institutional and legal reforms, such as the revision of the labor code and the improvement in the public sector management, including PEs, have been discussed above. This section focuses only on the reforms that have not been covered elsewhere in the chapter, namely the public administration reforms and the private sector enabling environment.

Civil Service Reform

2.83 Senegal inherited a large public administration from the days when Dakar was the capital of the French West African colonies. [24/] The high cost and the increasingly poor performance of the civil service [25/] have posed major challenges to Senegal since at least the mid-1970s. A first attempt to address these issues was made in 1976 when the government decided to reorganize the central ministries ("opération organigramme") with a view to downsizing staff, reducing wage costs and improving efficiency. The program had to be abandoned because of resistance from some ministries. Since 1982, the government has taken steps under its adjustment program to maintain a ceiling on the number of civil servants, to freeze salaries and to improve the management of the civil service. These measures have been supported by SALs II-IV, an IDA technical assistance project (PAGD), and a series of IMF arrangements.

2.84 The most far reaching attempt at reforming the civil service has been undertaken by the government since 1990. The government designed a comprehensive reform program to restructure key ministries by reducing staff, through a voluntary departure program, instituting measures to control the wage bill and improve personnel management. A number of studies were commissioned under the PAGD to facilitate the design and the implementation of the reform program. If implemented, these measures would reduce the number of civil servants by 7.2% by June 1992, and bring their ratio to the population from 9 per thousand to 7.7—a ratio comparable to other African countries with better resource endowments. The nominal wage bill would also be reduced by 8.7%, from CFAF 125 billion in 1988-89 to CFAF 115 billion in 1991-92.

2.85 The government implementation performance has been mixed. The administration was restructured in March 1990, reducing the number of ministries from 23 to 15 by eliminating or merging some departments. Key departments, such as the Tax Department (DGID) and the Customs Department (DGD), were strengthened. The voluntary departure program was introduced with an initial success and resulted in the departure of some 3,745 staff from the payroll (see Box 2.3). On the other hand,

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24/ This section draws heavily on the SAL IV President's Report, pp. 32-38, as well as the various supervision reports, the latest of which is dated October 28, 1991.

25/ Dakar emerged from being the capital of French West Africa as having the best trained civil servants in the region and the highest paid, as Senegal kept complete wage parity between African and French employees. In the early 1960s, the civil servants had seven times the average income of peasant households and twice the wage of skilled industrial workers. See Ka and Walle (1992), p. 6, footnote 2.

Box 2.3: Senegal Civil Service Voluntary Departure Program: Success or Failure

The civil service reform program, which was introduced by the government in January 1990, consisted of three components: (i) a major restructuring of the administration (reduction in the number of ministries from 23 to 15 followed by an organizational audit), elimination of about 2,850 positions (49% of which by June 1990); (ii) an early retirement program which could affect about 1,450 staff aged 48 years or over; (iii) and a privatization program of selected government services (including the Road Maintenance Department of the Ministry of Infrastructure and the Maintenance Department of the Ministry of Water Resources) which could cover 1,309 staff. The education and health sectors were excluded from the reform program to avoid straining further the acute need of personnel in these two sectors.

As government had always opposed a unilateral firing of civil servants, it decided to grant generous compensation packages (up to 48 months of salary, except for the two lowest grades which would receive 60 months of salary) to entice the staff to leave the administration. The program was externally financed from France, AfDB and counterpart funds from SAL IV disbursements.

The government's voluntary departures program (VDP), which started later than originally expected, was well received by civil servants, and, as a result, 4,140 staff applied to leave the service under this program by June 1990. Of this number, only 2,030 could leave by August 1990 because some of the financing for separation packages, which had been provided by donors for this program, was diverted to fill the unexpected budgetary financing gap in 1989-90. Another round of voluntary departures amounting to 1,715 occurred towards the end of the 1990-91 fiscal year. Thus, as of August 1991, a total of 3,745 staff, representing about 90% of both the total number of applicants and the original program, had left the civil service at a total cost of CFAF 15.7 billion. The average cost per departee is calculated at about CFAF 4.2 million, representing nearly 3.2 years of salary, which is in line with that programmed. Most of these departures have come from the lower levels of the service, with the two lowest levels (out of five levels) of the service representing about 46% of the total. This is more than twice the share of these two categories in the total number of civil servants (20.1%.) Early retirees have accounted for about 43% of the total number of departures.

Box Table 2.3: Senegal Civil Service Voluntary Departure Program, 1991

	SAL IV Program (Number)	*Appli-cation (Number)*	*Actual (as of October 1991)*		
			Number	*%*	*Average Cost (CFAF,m)*
Nature of Departure					
Voluntary departure	1,450	2,458	2,155	57.5	4.8
Early retirement	2,850	1,682	1,590	42.5	3.3
Privatization	1,309				
Total	5,609	4,140	3,745	100.0	4.2
Departure by Grade					
A (highest)	...	492	434	11.6	5.9
B	...	1,088	925	24.7	5.9
C	...	744	674	18.0	4.1
D	...	1,417	1,339	35.8	3.1
E (lowest)	...	399	373	10.0	2.2
Total	...	4,140	3,745	100.0	4.2

Source: SAL IV Supervision Mission Aide-Memoire, October 28, 1991.

government was unable to control recruitment and the wage bill. As of June 1992, the civil service personnel stood at about 64,000, or 4% higher than programmed, and the wage bill for the year reached CFAF 130 billion, or 13% higher than planned. In addition, the amount of "rappel" in arrears continued to increase, contrary to the spirit of the adjustment program. The management information system, providing data on staff and payroll, has yet to be installed.

2.86 The implementation of the program was not without problems. The government, instead of carrying out a well-designed organizational audit for which resources were made available by the donors, as originally planned, resorted to arbitrary procedures. As a result, the administration was paralyzed for some time. No serious follow up took place on what has become of the staff who left the administration and there are indications that a few departees might have returned through the back door. The most serious setback of the voluntary departures program was the inability of the government to control recruitment. After the first round of departures in June 1990, government had recruited as many as those who had left. This is a clear indication of the lack of coordination between ministries and the lack of a reliable monitoring information system, two key elements of the civil service reform program and the PAGD. The importance of having adequate institutional capacity to implement the reforms is crucial to the success of the program.

Regulatory Environment

2.87 The regulatory environment has improved somewhat under the adjustment program but more remains to be done. The fundamental issue is attitude—civil servants "mistrust" the private sector. Administrative regulations are cumbersome and lack efficiency. The main achievements in Senegal were in incentive systems. The investment code was revised twice, the latest in 1987, with the view of eliminating the bias against labor intensive investment, introducing automaticity in benefits, eliminating the special regime, and streamlining the administrative procedures for investment approval through the establishment of a one-stop window (*guichet unique*). The formalities involved in setting up an enterprise (including the Commercial Code) have been streamlined and simplified to allow for quicker and more efficient government evaluation of private sector investment applications. A March 1991 law allows the automatic approval of all such requests, if not acted upon within 30 days.

2.88 In 1980, a series of export promotion measures were adopted, consisting of a duty drawback scheme and export subsidies, and a strengthening of both the export promotion agency (CICES), and the export insurance agency (ASACE). Subsidies have been extended and the rate has increased from 10% of export value to 25% of value added. However, since 1990, government has stopped honoring payments for export subsidies because of budgetary difficulties. In 1990, efforts at export promotion have centered on resuscitating activity in the industrial free zone (ZFID). Firms in this zone are now allowed to sell up to 40% of their output on the domestic market. The government has also set up "free points," granting all the tax advantages of firms in the zone to selected export-oriented enterprises located outside the zone.

2.89 Special agreements (*conventions spéciales*) between government and firms provided long-term concessions (in the form of a legal monopoly on production and importation) to firms as an incentive to invest in large projects. These concessions, which were of an essentially ad hoc nature, introduced distortions in the incentives system and resulted in substantial revenue foregone for the government. In 1986, there were about 21 companies, 15 of which are in the industrial sector, which benefitted from specific protection regimes. It was estimated that over the period 1979-86, agreements of the four most important firms cost the government some CFAF 115 billion, in cumulative terms, in foregone revenue. Government decided in 1987 to phase out these agreements by simply letting them expire, and in the case of three major companies (sugar, petroleum and cement) specific actions were taken to reduce government concessions. Of the 15 industrial firms covered by these agreements, agreements for four firms should have expired by 1991, five more by 1995, and the remainder by the year 2000.

D. Summary

Design and Sequencing of the Reform Program

2.90 The design of Senegal's adjustment program lacks, as do programs in CFA adjusting countries, the use of an important policy instrument, the exchange rate. Not having the exchange rate as one of the major adjustment tools had rendered the design of the program complicated and its full implementation difficult to guarantee. The deflationary policy that Senegal adopted relied more on demand management, and less on supply incentives.

2.91 Apart from the exchange rate policy issue, the design of the adjustment program components has improved over time as Senegal gained more experience in adjustment. There has been a shift from complex macroeconomic adjustment operations to sector-specific adjustment operations. A series of specific and well focused (rather than fewer and more complex) operations was chosen by Senegal to avoid overburdening its administrative capacity. This was achieved by dividing the wide range of policy changes needed into manageable packages, or SECALs—banking, agriculture, human resources, and transport—which were supported by the Bank and key donors. All but the agricultural operation are currently under implementation.

2.92 Chronologically, the adjustment program focussed on macroeconomic stabilization, agricultural marketing liberalization, trade liberalization, public sector management, including public enterprises and civil service, wage and labor market deregulation, population growth, banking sector restructuring, and transport sector rehabilitation. The sequencing and coherence between these various components of the reform program have been closely monitored through the PFP process. Had the human resources sector, particularly education, been fully addressed and the exchange rate been used as a policy instrument to improve the competitiveness of the economy, the adjustment program would have been comprehensive.

2.93 The sequencing of the reforms has not been without serious flaws. In addition to the lack of real exchange rate policy, the decision to proceed with the liberalization of the external trade before establishing an effective tax administration, eliminating labor rigidities, and reducing the cost of production, reflects insufficient consideration given to the sequencing of reforms. Similarly, the decision to proceed with the civil service departure program before establishing a robust database on wages and civil servants, and a monitoring system, also reflects a deficiency in the sequencing of reforms. The banking sector reform, although well implemented, should have been carried out earlier, had the severity of the crisis been known. Finally, the privatization of public enterprises ought to have been initiated once a good regulatory and incentives framework was in place.

Government Ownership

2.94 Government ownership of the reform program seems to depend on three key elements: the degree to which there is consensus-building among the interest groups, the strength of institutions in charge of formulating and coordinating the reform program, and the nature of the reforms themselves—the more biting these are, the more reluctant government is to implement them fully. Over time, policy measures tend to be discussed widely with concerned parties, and publicly debated. A case in point is the revision of the labor code which involved extensive discussion between the government, the labor unions and the employers unions and more recently the discussion of the higher education sector. Another indicator of increased government ownership is the fact that the formulation of recent adjustment programs has taken more time than before, largely to ensure that concerned parties were behind the reforms. Notwithstanding this effort, the involvement of the private sector in the design of the reform program has been far from satisfactory.

2.95 Concerning the government's commitment to the reform program, the momentum seems to have been lost following the 1988 election when the technocrats' influence was weakened as a result of political pressure. During the period 1986-88, a core team of technocrats was instrumental in the implementation of reforms and in the progress of economic stabilization and structural reforms. During that period, weekly meetings were chaired by the Finance Minister to monitor the implementation of the adjustment program and take corrective measures if needed. Senegal was least successful in its reform implementation where vested interest was strong and leadership was weak. This is the case of the agricultural pricing reform, the privatization of the groundnut marketing and processing sector, the liberalization of the labor market, and the containment of the cost in the higher education sector. The lack of agreement between the government and the key donors, including the Bank, on the agricultural SECAL, which has been under preparation for over three years, is a good example reflecting the point discussed above. To deal with the government's weak commitment to the adjustment spirit—often, the government implemented the reforms in form rather than in substance—recent Bank adjustment operations put heavy emphasis on up-front conditionality. For instance under SAL IV, about half of the core conditions (those without which there would be little justification for the program itself) have been implemented before Board presentation. [26]

Implementation of the Reform Program

2.96 Overall, Senegal's performance in implementing its adjustment program has been mixed. This evaluation is carried out by major policy categories (see Box 2.4) and by major sectors of the economy. Senegal performed well in the areas of monetary and credit policy, pricing and trade policy, and financial policy—the latter being an area where Senegal was one of the first countries in the CFA zone to undertake such a far reaching reform. Two caveats are in order here. First, government began in recent years reversing its import protection policy, and second, government was not aggressive in recovering the banking sector bad debts owing to its hesitancy to pursue the large debtors. The unfinished reform agenda is mainly in monetary policy where there is a need to shift to a market-based system of money and credit management.

2.97 Senegal's performance was exceptionally poor in real exchange rate policy, and labor and wage policy, all of which are critical to improving the country's competitiveness in the world market. The real exchange rate has appreciated by at least 25% in foreign currency terms during the adjustment period. The labor market has been partially liberalized (liberalization of hiring practices, and partial relaxation of the constraints on the use of temporary employment contracts). A new draft labor code, which eliminates the rigidities in the labor market, has been prepared but has yet to be enacted into law. As a result of the persistence of the rigidities in the labor market, labor costs remain a serious impediment to investment, growth and competitiveness.

2.98 On the fiscal front, government implemented a wide range of tax reforms designed to simplify the tax structure, (namely by introducing a global personal income tax and a single tax on corporate income), modernized the tax administration system, and mobilized resources by widening the scope of the value-added tax. Government also introduced expenditure control in investment. Government tended, however, to focus on short-term financial considerations, such as reliance on windfall revenue from the petroleum imports and the introduction of numerous, ad-hoc tax measures rather than on structural issues. Revenue mobilization and resource allocation were done at the expense of competitiveness and long-term growth. In expenditures, government reduced investment (below appropriate levels for replacement) and allocations to O&M, but protected wages and salaries, thus jeopardizing future growth and employment. In sum, the key fiscal reforms left to be implemented are strengthening the tax administration, particularly customs, reducing the wage bill, and controlling transfers to PEs.

2.99 A sector review of the implementation of the reforms reveals also mixed performance. The implementation of the agriculture reform program has been limited

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26/ See Senegal - SAL IV President's Report (No. P 5185-SE), January 17, 1990.

Box 2.4 Senegal Rating of Adjustment Performance

The table below provides a broad indication of the adjustment design and implementation performance in Senegal. The evaluation covers 10 policy areas (for example, fiscal, monetary, pricing, and trade) and other non-program factors (such as country ownership) that affect performance. Each of these variables is rated on a scale of 1 (very poor) to 5 (very good), taking into account both the present situation as well as the trend. This evaluation has been carried out twice, in 1991 and 1992, by Bank staff. The ratings for the two years are very similar, with a slight deterioration in the implementation performance in recent months.

Overall, Senegal's performance is rated 3—unweighted average, ranging between 2 for exchange rate policy and 4 for monetary policy. In terms of program design (comprehensiveness, sequencing, and adequacy for the country needs) and government capacity to implement the reforms, Senegal is rated around 3.3. The two policy items for which the rating is poor (2) are real exchange rate and labor and wage policies. Program design is rated good with the exception of real exchange rate policy. The other two indicators, government ownership of the program and compliance with the conditionality, are rated weak, 2.8 and 2.4, respectively. While progress is being made in some areas such as parastatal reforms, performance is worsening in other key areas such as fiscal policy (lack of control of the wage bill) and international trade liberalization policy. Among the sectors where fundamental reforms have yet to be designed and implemented are agriculture and higher education.

Box Table 2.4: Senegal Adjustment Policies and Implementation Matrix, 1992

			Implementation		*Overall Rating**	
	Design	*Ownership*	*Compliance*	*Capacity*	*1992*	*1991*
1. Fiscal	4	3	2	3	3.0	3.3
2. Monetary	4	4	4	4	4.0	4.0
3. Exchange Rate	2	2	2	2	2.0	2.0
4. Prices/Domestic Trade	4	3	2	4	3.3	3.5
5. Labor & Wages	2	2	2	3	2.3	2.3
6. External Trade	3	3	2	4	3.0	3.0
7. Financial Sector	4	3	3	4	3.5	3.3
8. PEs	4	3	3	4	3.5	3.0
9. Social Sectors	3	3	2	3	2.8	2.5
10. Other Sectors	3	2	2	3	2.5	2.8
Overall Rating*						
1992	3.3	2.8	2.4	3.4	3.0	
1991	3.2	2.9	2.6	3.1		3.0

* Unweighted average.

Source: Bank staff estimates.

to the liberalization of domestic trade, price decontrols of most commodities, and elimination of input subsidies. On the other hand, rice import controls remain a major issue and producer prices for cash crops, namely groundnuts and cotton, continue to have no direct relationship to world prices. The liberalization of the domestic market for most commodities have been necessary conditions although not sufficient to turn the agricultural production around. The overvaluation of the real exchange rate and unfavorable terms of trade for groundnut oil and cotton remain major obstacles to agricultural development. A comprehensive reform program addressing the groundnuts, cotton, and rice sectors is urgently needed.

2.100 The implementation of the industrial reform program has been very limited. What was supposed to have been a comprehensive and well-sequenced program turned out to be only partially implemented. The policies effectively implemented were the liberalization of domestic and international trade and the decontrol of most domestic prices. However, in recent years, government started reversing its trade policy primarily for fiscal reasons, but also to protect industry and to compensate for the appreciation of the real exchange rate. Crucial reforms such as labor deregulation, improvement in the administrative environment, reduction in the cost of energy, and export subsidy schemes were partially implemented, and late in the adjustment process. Among the measures implemented to improve the regulatory environment were the revision of the investment code and the simplification of the investment procedures. The industrial program, which was conceived as a comprehensive reform program, was finally reduced to a policy of price and trade liberalization.

2.101 The implementation of the PE sector reforms has been uneven. Government liquidated 21 PEs and privatized, totally or partially, 26 others, together representing 42% of the total number of PEs. These PEs represent only 19% and 11%, respectively in terms of assets and government equity. Divestiture, which is nearly complete in the financial sector, is far from being so in the non-financial PEs. The progress made in the divestiture program is very recent—three-quarters of the PEs privatized and liquidated, which translated into about 80% of their assets and government equity have been achieved since 1989. A total of ten PEs (out of 27 planned) have been restructured and rehabilitated. Finally, a total of 24 (out of 44 planned) contract plans (CPs) and "letters of mission" have been signed between government and selected PEs. The use of CPs has improved transparency and accountability of the two contracting parties—not a small achievement—but has encountered major problems in its financial implications. On the financial front, the government implemented the reforms in "letter but not in spirit." The government reduced direct subsides to PEs but the benefit of this reform was defeated when the PEs circuitously sought financing through commercial overdrafts and government guarantees. This loophole was corrected in 1990 by prohibiting this type of financing; this in turn was defeated by the PEs through the accumulation of arrears. The settlement of these arrears between government and PEs has been carried out twice in a comprehensive manner, and the problem seems to be less acute now because of the introduction of concurrent preventive measures.

2.102 In the human resources sector (education and health), only a limited number of reforms have been implemented. The unfinished reform agenda includes a reduction in the imbalances between primary education and higher education, and between basic health care and a curative health system. Reform programs for higher education and health are currently under active consideration by the government.

2.103 Figure 2.2 presents the major reforms undertaken during the period 1980-91 and those not yet undertaken.

Figure 2.2: Implementation Status of Major Policy Reforms in Senegal, 1980-91

	80	82	84	86	88	90	91	IS
Fiscal Policy								
Rationalize tax system				XXXXXXXX		XXX	XXXX	1
Improve tax administration						XXXX		2
Introduce cost recovery								3
Control wage bill				XXXXXXXXXXXX		////////		2
Improve public investment programming	XX			XXXXXXXXXXXXXXXXXXXXXXXX				4
Reduce PE subsidy				XXXXXXXXXXXXXXXXXXXXXXXX				2
Improve debt management	XX			XXXXXXXXXXXXXXXXXXXXXXXX				1
Monetary and Financial Policies								
Adopt flexible int. rate & credit policy					XXXX			1
Establish bank supervison body						XXXX		1
Restructure the banking sector		XX			XXXXXXXXXXXXX			1
Develop capital market								3
Shift to indirect instru. of monetary control								3
Real Exchange Rate Policy								
Adopt deflationary policy								3
Domestic Prices and Trade Liberalization								
Decontrol prices	XX			XXXX		XX	X	1a/
Liberalize input & cereals output marketing	XX			XXXXXXXXXXXX				1b/
Reduce input subsidy	XX			XXXXXXXXXXXX				1
Eliminate monopolies (special agreements)								3
Reduce cost of production							XXXX	2
Labor Market Liberalization								
Deregulate wage setting system								3
Deregulate labor market					XX	XX		2
External Trade Liberalization								
Eliminate non-tariff restrictions				XXXXXXXX		//////////		1c/
Reduce tariff categories and levels				XXXXXXXX		//////////		1c/
Improve export incentives	XX			XXXX		XXXX////		2
PEs Reform Program								
Restructure key enterprises				XXXXXXXXXXXXXXXXXXXX				1
Implement divestiture program	XX				XX	XXXXXXXX		4
Rationalize supervision system				XXXX		XXXX		1
Use performance contracts								2
Enabling Environment Reform								
Simplify legal & admin. procedures								3
Improve investment incentives				XXXX		XXXX		1
Reform civil service						XXXXXX		2
Other reforms								
Population control					XX			2
Reform education sector								3
Reform health sector								3
Reform rice, cotton, & groundnut sectors								3
Adopt social safety net measures				XXXX		XXXX		2

XX Policy Implementation.
/// Policy Reversal.

a/ Prices on 14 items remain controlled.
b/ Rice market remains controlled.
c/ Gradual policy reversal.

IS = Implementation Status.
1 = Implemented.
2 = Not effectively implemented.
3 = Not implemented.
4 = Continuous.

Source: SA Table 5.

3

Macroeconomic Outcomes of the Adjustment Program

3.1 The methodology used in this chapter and the following one to evaluate the impact of adjustment on economic performance is the "before and after" approach. The main flaw with this approach is that it relies on the assumption that other things are held equal, which is highly implausible. To complement this approach, it is suggested that future work focus on other methodologies which have been followed in the literature, namely the "control group" approach and the econometric approach. The "control group" approach allows, in principle, to overcome the inability of the "before and after" approach to distinguish the effect of adjustment per se and the effect of other factors. It compares the performance in adjusting countries with the performance in a reference group of non-adjusting countries to estimate what would have happened in the adjusting countries had adjustment not taken place. The third approach applies econometric methods to times series to determine the impact of adjustment on several performance variables.

3.2 Six variable have been selected to measure the impact of adjustment: two stabilization indicators—budget deficit to GDP ratio, and current account deficit to GDP ratio, and four "response" indicators—investment to GDP ratio, savings to GDP ratio, export growth, and economic growth. The four response variables over the period 1980-90 are presented in Figure 3.1. In addition, Table 3.1 provides a comparison between the stabilization period (1980-85) and the adjustment period (1986-90) for most of these indicators.

3.3 The government's macroeconomic performance targets have been criticized by some observers, including the Operations Evaluation Department of the World Bank, as being too ambitious. To respond to this criticism, PFPs projections of the above selected indicators have been compared to actual outcomes for the period 1986-91 (see SA Table 2 and SA Figure 1). [27/] While PFPs projected a steady growth of around 4% per annum, actual rates have been within an acceptable margin of error in four out of six years. The two years for which actual growth rates diverged significantly from projections are 1989 and 1991, a period of poor rains. The fiscal deficit as a ratio to GDP is the indicator which fluctuated the most. While PFPs projected an improvement in the fiscal position by around one percentage point of GDP per year, the actual outcome displayed wide fluctuations. This does not, however, reflect a deliberate over-optimism embedded in the PFPs, but rather a clear indication of poor fiscal reform implementation, combined with external shocks (see Box 3.1). The actual values for the current account deficit have been less favorable than those projected, largely because of

27/ "Macroeconomic Projections in Policy Framework Papers in the Africa Region," mimeo, Rashid Faruqee, AFRCE, World Bank, July 15, 1992.

poor export performance; imports as a ratio to GDP have declined to a point considered harmful to longer-term growth. The actual export growth rate has been lower by a large margin than the projections. In particular, traditional exports (groundnuts, cotton, fish, and, to some extent, phosphate) have been projected at higher rates than warranted by either the world market prospects (the case of groundnuts) or the country's potential (the case of fish). The projections of savings and investment ratios to GDP have been optimistic, with actual values lower by 42% and 12% on average, respectively. In sum, the expected results of adjustment, as envisaged in five consecutive PFPs, are far from been fully realized in Senegal, partly because of lack of reform implementation, partly because of external shocks and partly because of optimistic assumptions.

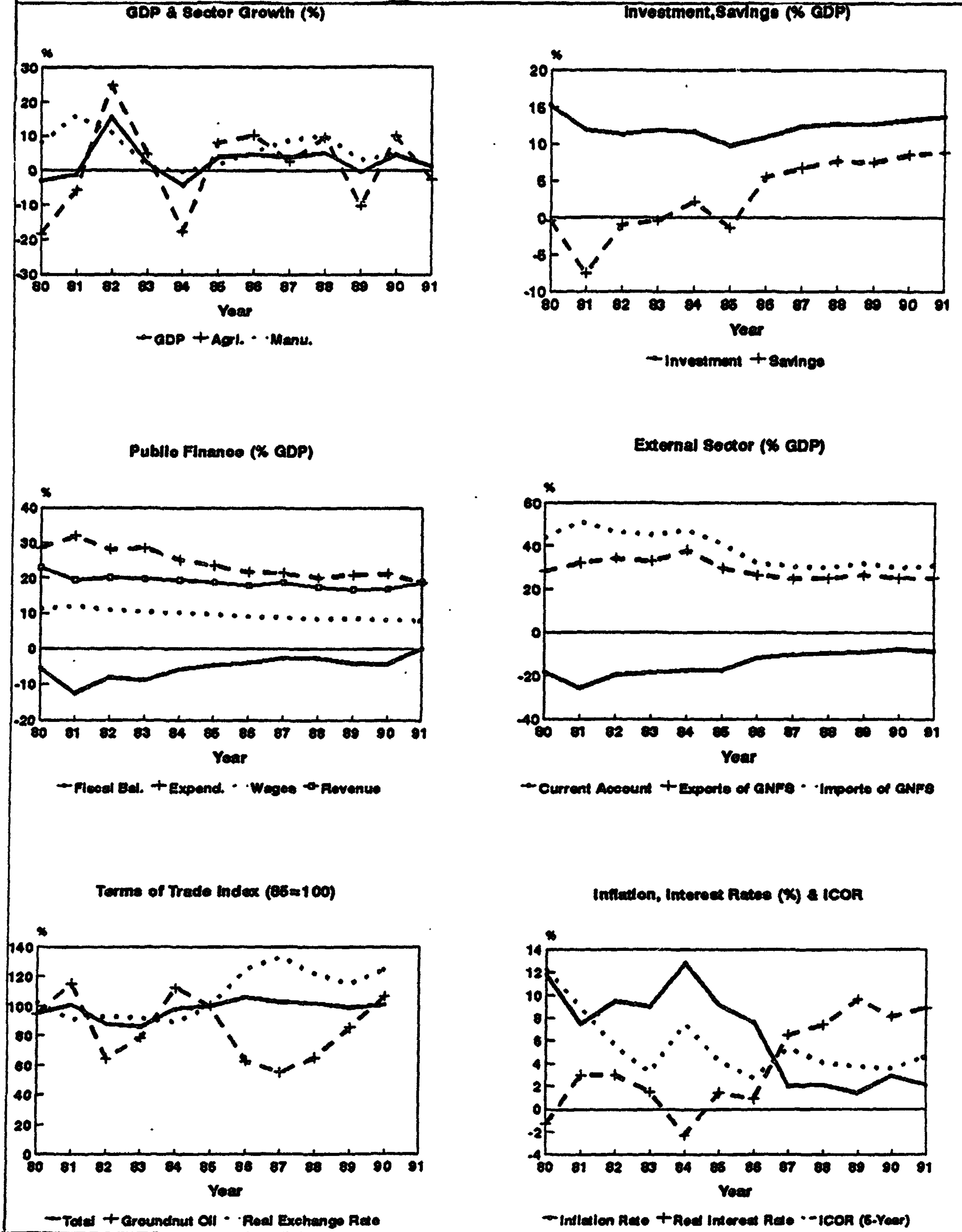
Table 3.1: Senegal Key Macroeconomic Indicators, 1980-90
(in percentage)

	Yearly Average		
	1975-80	*1980-85*	*1986-90*
Intermediate Results			
Inflation rate (GDP deflator)	8.5	10.0	3.2
Nominal discount rate (at year-end)	8.4	10.8	9.7
Real interest (discount) rate	-0.1	0.8	6.5
Current account/GDP a/	-12.4	-19.6	-9.7
Fiscal balance/GDP b/	n.a.	-7.6	-3.5
Final Results			
Real GDP growth rate	1.3	2.2	3.5
Gross fixed investment/GDP	16.5	12.0	12.4
Gross domestic savings/GDP	6.8	-1.4	6.7
Imports of GNFS/GDP	-44.4	-45.9	-30.9
Exports of GNFS/GDP	34.7	32.5	25.7
Real growth rate of exports of GNFS	5.8	1.1	3.5

a/ Excluding official transfers.
b/ On a commitment basis and excluding grants.

Sources: Table 1.1, SA Table 1, Macroeconomic Update Report, August 1992, and Unified Survey, November 1991.

Figure 3.1: Senegal Key Macroeconomic Indicators, 1980-90



A. Macroeconomic Stabilization

3.4 Overall, Senegal succeeded in drastically reducing its macroeconomic imbalances during the 1980s, particularly since 1983.[28/] The budget deficit (on a commitment basis and excluding grants) was reduced from 8.8% of GDP in 1983 to 4.3% in 1990 and was completely eliminated in 1991. The current account deficit of the balance of payments (excluding official transfers) experienced a similar trend—from 18.6% to 7.8% of GDP during the same period. On average, the fiscal and external imbalances were reduced by half during the structural adjustment period. This impressive achievement, particularly in the fiscal area, remains fragile, as discussed below, and, unless additional structural reforms are urgently introduced, will not be sustained.

Fiscal Improvement

3.5 The manner in which Senegal stabilized its fiscal situation during the 1980s raises serious concerns about the sustainability of its achievements, and the negative impact on competitiveness and long-term economic growth. As discussed in Box 3.1, the fiscal improvement was not continuous throughout the period nor was it based on real structural reforms, a clear indication of the government's stop-and-go adjustment policy and lack of commitment to fiscal reforms. A review of the fiscal policy in Senegal highlights a number of critical issues. The first issue is the lack of sustainable fiscal reform. Senegal's poor revenue mobilization performance (i.e. the tax buoyancy declined from 0.8 to 0.6 during the period under review)[29/] has caused the adjustment program to focus on reducing public expenditures, a situation which has become increasingly difficult to sustain as evidenced by the recurring fiscal crises. Nominally lower fiscal deficits in recent years have been achieved through arbitrary cuts in public spending (including O&M expenditures and direct export subsidies) and ad-hoc revenue measures in the absence of a balanced structure between tax and non-tax revenue. The continuation of past policies could indeed lead to a worsening situation as the tax burden becomes increasingly more severe to a smaller number of taxpayers, thereby encouraging attempts to "informalize" their economic activities.

3.6 A second issue is the continuing conflict between revenue mobilization and growth promotion objectives. The issue stems from the fact that Senegal continues to

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28/ This section draws heavily on the recent Bank economic report on Senegal: "Macroeconomic Update," August 1992.

29/ Tax buoyancy is defined as the percentage variation in tax revenue expressed in terms of changes in GDP, but excluding the impact of discretionary measures. Several factors accounted for the decline in the tax buoyancy. Most noteworthy were the narrowing of the tax base, reflecting a weak economy, and the "informalization" of the economy as the informal economy expanded rapidly away from the stagnating formal sector. The reasons for tax variation include high turnover, declining salaries in the formal sector, low business profits, and a decrease in imports, adversely affecting tax collection.

rely heavily on windfall revenues from petroleum (to the tune of 22% of total tax revenue) and rice imports to finance its current expenditures. This reliance on petroleum revenues erodes Senegal's competitiveness (domestic petroleum prices are 2.3 times world prices), and undermines the stability of the revenue structure, given the potential volatility in world oil prices. Therefore, increases in fiscal revenues must come from improved tax administration efforts and a reduction in exemptions and fraud. With less than 14% of GDP, the current tax revenue in Senegal compares poorly with countries at Senegal's income level—the average for Sub-Saharan Africa is about 16% and for low-middle-income is about 17%.

3.7 Third, little progress in the civil service reform has led to a situation where the wage bill continues to be a heavy burden on the country's limited resources. 30/ Given the government's budgetary constraint, a significant reduction in the wage bill is vital because the resource savings are needed both to reduce the heavy dependence on petroleum revenues and to increase expenditures on basic social services (such as primary education and preventive health care) and to maintain the country's infrastructure which, due to lack of proper maintenance, is rapidly deteriorating. It is critical, from the long-term growth point of view, to increase the share of investment in GDP. One of the findings of the second review of the Bank's own experience with structural adjustment (RAL II) shows that growth in the private sector is somewhat linked to increases in public investment. For non-wage, non-interest expenditure, there is certainly room for improvements in efficiency and sector reallocation, but, in the aggregate, the level achieved prior to the austerity year (1990-91) could not be compressed further short of adversely affecting the functioning of the economy.

External Sector

3.8 Allowing for debt relief, a major source of foreign exchange financing, the balance of payments has registered surpluses in four out of five years of the period 1986-90 due to an improvement in the trade account. The trade deficit which had deteriorated up to 1985, has since improved, particularly in 1986 when prices for the country's major imports (petroleum products and rice) fell sharply. With the exception of phosphates, exports have been stagnant or falling. Between 1982 and 1990, Senegal's two key exports, fish and groundnuts, increased by only half a percentage point per year in volume terms—a dismal performance. 31/ Senegal's trade balance improvement was the result of import compression which cannot be pursued further without adversely affecting long-term growth. The diversified export base, seemingly achieved during the

30/ Even in the absence of budgetary constraints, the civil service needs to be downsized to improve its efficiency as Senegal inherited a large administration when Dakar was the capital of the French West African colonies.

31/ Among the main explanatory factors for the poor performance of these two export items, one can mention the resource depletion and the aging fishing fleet in the case of the fishery sector, and the keen vegetable oil substitution in the case of groundnut oil.

Box 3.1: Senegal's Fiscal Performance: A Stop-and-Go Approach

Senegal appears to have performed well on the fiscal front during 1983-84 (a year during which Senegal resumed the adjustment dialogue with the Bank and the Fund) and 1987-88 (a year prior to the drought). Indeed, the fiscal deficit (on a commitment basis and excluding external grants) had declined by over 3 percentage points of GDP, reaching 2.6 percent in 1987-88. This adjustment was, however, unsustainable and done in a way contrary to improving of Senegal's competitiveness and to promoting long-term growth. The adjustment was largely made possible by cutting expenditure (in particular investment and O&M expenditures) and by relying heavily on revenue windfalls, essentially from petroleum (to the tune of 2 percentage points of GDP, starting in 1985-86) and rice imports. The revenue windfalls from petroleum reflected the government's policy to maintain domestic prices of petroleum products when world prices declined sharply. Currently, domestic prices represent about twice world prices. The heavy dependence on petroleum revenue has two serious implications: it increases the cost of production and makes the revenue structure subject to the volatility of petroleum world prices.

While the substantial revenue windfalls were "wisely" used to reduce the budget deficit (unlike in mid-1970s when revenue windfalls from groundnuts were used to increase expenditure and borrow against future improvements in the terms of trade), they were not accompanied by an improved fiscal revenue position, in spite of a number of discretionary measures introduced under the adjustment program. The share of tax revenue in GDP dropped from 18.1 percent in 1983-84 to 14.3 percent in 1987-88, mainly as a result of poor tax administration performance, in particular, the customs department.

The substantial reduction in the fiscal deficit over this period is somewhat over-stated. Indeed, the official statistics should be adjusted to reflect the huge non-performing loans of the banking system since the government is ultimately responsible for honoring them. At the end of 1988, non-performing loans accounted for about one-third of the net domestic assets of the banking system. Some CFAF 253 billion, equivalent to 16% of GDP and to 93% of government revenue in 1988, were needed to restructure the banking system.

Box Table 3.1: Government Finances, 1981-90

	Share of GDP (%)						*Changes in % of GDP*	
	81/82	*83/84*	*86/87*	*87/88*	*88/89*	*90/91*	*86-81*	*86-90*
Revenue	20.1	19.3	18.7	17.5	16.8	18.9	-1.4	0.2
Tax Revenue	18.5	18.1	14.6	14.3	13.4	15.2	-3.9	0.6
Non-Tax Revenue	1.6	1.2	4.1	3.2	3.4	3.7	2.5	-0.4
Expenditure	28.1	25.1	21.3	20.1	20.9	18.7	-6.8	-2.6
Wages	11.0	10.3	9.0	8.5	8.6	8.1	-2.0	-0.9
Interest Due	2.4	3.8	3.0	3.2	3.3	2.4	0.6	-0.6
Other Current Expend.	10.7	6.2	6.5	5.5	6.2	5.4	-4.2	-1.1
Capital Expenditure	4.0	4.1	2.8	2.9	2.8	2.8	-1.2	0.0
Fiscal Deficit	-8.0	-5.8	-2.6	-2.6	-4.1	0.2	5.4	2.8

Source: Macroeconomic Update, SA Table 40, August 1992.

The financial position of the government deteriorated seriously over the period 1988-89. The budget deficit as a share of GDP widened to 4.1 percent in 1988-89 and 4.3 percent in 1989-90. While drought and border disturbances in 1988-89 and civil service reorganization in March 1990 played a part in this deterioration, the real problem was one of structural rigidities and laxity in expenditure controls. There was little, if any, control of the treasury special accounts; the budgetary transfers and subsidies to the parastatals continued to be relatively high; and, although the wage bill registered a decline in real terms, it remained the major expenditure item.

The poor tax administration and collection continued to be part of the fiscal problem. Tax revenues remained almost constant in nominal terms compared to 1987-88 despite efforts to reverse the downward trend of their share in GDP through a number of discretionary tax measures. There were two main reasons for this poor performance. First, there was a continued erosion in the tax base—the reintroduction of high tariffs together with the existence of complex administrative regulation—were important contributing factors to the shrinking of the formal sector. Second, under-invoicing and smuggling continued to be a major cause of revenue loss. The tax base was affected by the granting of

Box 3.1: Senegal's Fiscal Performance: A Stop-and-Go Approach *(Continued)*

numerous exemptions. Despite efforts to reduce their number as part of the reform program, many continued to exist. Nearly a third of total imports was exempt from the payment of customs duties in 1989-90. Duties thus foregone represented 80 percent of customs revenue and a third of total tax revenue.

The fiscal situation improved significantly in fiscal year 1990-91, with fiscal stance turning positive (0.2% of GDP) for the first time. This, however, was achieved, largely through an across-the-board cut in non-wage current expenditure needed to help redress expenditure overruns and revenue shortfalls. Moreover, this cut in O&M expenditures was made without an overall framework to prioritize spending. Low O&M expenditures affected every sector, in particular education where non-wage recurrent expenditures are just about 10 percent of the wage cost. Also, key expenditure items such as export subsidies were not paid for and arrears vis-a-vis the PE sector reemerged.

adjustment period, is more a reflection of key traditional export items having lost their momentum in recent years than a vigorous increase in non-traditional exports.

External Financing Assistance

3.9 As a result of the lack of significant real progress on the fiscal side, Senegal continues to rely heavily on external budgetary financing. As discussed in Box 3.2, Senegal received generous external financial support from the donor community, with little interruption since independence. The amount of external support increased rapidly during the 1980s, especially during the second half, and the terms also became increasingly favorable. It is difficult to assess the contribution of external financing to the overall performance of the economy during the 1980s. One thing is clear, however, the increase in external assistance during the adjustment period (1986-90) was associated with a slightly positive per capita income growth, an almost constant ratio of investment to GDP (this is in spite of the fact that public investment is donor driven), and high public consumption, particularly the wage bill. Had it not been for the soft budget, Senegal would have had to cut its wage spending drastically in order to reduce its budget deficit while dampening the inflationary pressures.

3.10 From the balance-of-payments side, the increase in external resources can be justified on several grounds: to compensate for the real cost of adjustment, to offset the deterioration in the terms of trade, and to improve the level of reserves (i.e. the operations account position). The main objective is to maintain the highly needed imports to sustain economic development. However, in the case of Senegal, the justification is very weak as both the terms of trade and the value of merchandise exports improved during the adjustment period in comparison with the pre-adjustment period. It can easily be argued that the availability of large foreign aid (ODA disbursement increased by 51% during the adjustment period compared to the stabilization period) has contributed to the overvaluation of the exchange rate as discussed earlier.

Box 3.2: External Assistance to Senegal

Senegal has been a favored country for the donors since independence largely for political reasons, Senegal being the only "democracy" in Africa. During the 1980s, disbursement of official development assistance (ODA) to Senegal nearly doubled, reaching $730 million in 1989 or 16% of GDP. Not only Senegal received a much larger amount in per capita terms than before, but the gap between Senegal and other Sub-Saharan African countries widened over time. Between 1980 and 1989, per capita ODA (net of principal) went from $59 to $91 in the case of Senegal and from $20 to $32 (1988) in the case of SSA. Senegal currently receives external financial support from 27 donors, with France, EEC, IDA, Japan and the USA accounting for the bulk. Of the total ODA disbursement during the period under review, grants represented on average 48%, multilateral 27%, and technical assistance 22% during the 1980s.

Senegal's debt has stabilized in recent years after experiencing a rapid increase between 1979-83 and 1985-87. The stock of outstanding public and publicly guaranteed debt reached $4.8 billion in 1987 and after debt cancellation, it fell to $3.8 billion at the end of 1990, equivalent to 64% of GDP. After debt forgiveness, the debt to bilateral and multilateral sources is now roughly equal. The structure and terms of Senegal's debt has also become more favorable. Medium- and long-term debt accounts now for 89% of the total debt stock and concessional loans account for 53%. The average interest rate on all new commitments fell from 5.5% in 1985 to 1.8% in 1990, the average maturity lengthened from 23.5 years to 33.3 years and the average grace period rose from 6.1 years to 8.8 years during the same period.

Nearly two-third. of external financing was channeled through the central government budget either for investment (17%) or for general budget support (47%). The latter became increasingly significant during the second half of the 1980s in support of the adjustment effort. Debt relief, which is accounted for here as budgetary support, averaged about $91 million per annum, or 26% of total budget financing. Senegal has benefitted from several rounds of rescheduling by bilateral creditors (nine Paris Club reschedulings) and commercial banks (four London Club reschedulings). Total debt rescheduling obtained by Senegal increased substantially during the SPA period and, cumulatively, amounted to $910 million during the 1980s.

Box Table 3.2: Senegal ODA Flows and Budgetary Support (US$ millions), 1980-90

	Official Flows			*Budget Financing*			*TT c/*	*GDP*
	Gross	*Net*	*TA*	*Tied a/*	*Untied b/*	*Total*	*1080=100*	*Growth*
1980	384	366	122	...	...	...	100	-3.0
1981	459	416	118	87	247	335	107	-1.2
1982	497	472	103	95	195	289	93	15.3
1983	434	408	99	80	194	274	91	2.1
1984	482	444	115	57	166	223	104	-4.2
1985	352	331	92	62	148	210	106	4.0
1986	690	624	122	84	283	367	112	4.6
1987	755	667	131	100	357	457	110	4.0
1988	625	525	131	101	427	528	107	5.1
1989	730	644	132	100	369	470	104	-0.4
1990	...	...	...	166	173	339	107	4.5
Average:A:80-85	435	406	108	76	190	266	100	2.2
" :B:86-90	700	625	129	110	322	432	108	3.5
% Change: B/A	61%	51%	19%	45%	69%	62%	8%	64%

a/ Project financing.
b/ Including debt relief and specific financing (banking and voluntary departure).
c/ Terms of trade.
Sources: Macroeconomic Update Report (SA Tables 35 and 41), and Unified Survey, November 1992.

B. The Competitiveness of the Economy

3.11 As discussed in Chapter 2, the competitiveness of the Senegalese economy has not improved during the adjustment period. The real exchange rate has significantly appreciated and the cost of production has remained high. Real wages and salaries have declined significantly during the stabilization period (1980-85) and then recovered somewhat during the adjustment period and remained uncompetitive compared to other countries. In the industrial sector, Berg [32/] observes that "there has been a modest fall in real wages during recent years. But... this tendency has not been strong enough to convert Senegalese industry from a high-wage to a low-wage sector." The minimum wage (SMIG), a base benchmark for wages in the industrial sector, declined by 22% in real terms during the period 1980-85 and increased thereafter by 9% during 1985-90.

3.12 Data on factor costs in Senegal are scarce, making it difficult to make appropriate comparisons with other countries. [33/] Nevertheless, the findings in recent studies do indicate a substantial degree of lack of competitiveness in Senegal. This is illustrated by the following examples.

- The average labor cost in the Senegalese modern sector is roughly equivalent to the average civil service salaries and, while labor cost is 10% less in Côte d'Ivoire, it is respectively 56% higher than in Morocco, 60% in Malaysia, 70% in Tunisia and 370% in Indonesia. Public sector wages in Senegal appear to be even further out of line when compared to per capita GDP. Average public sector wages in Senegal are almost 12 times per capita GDP (1987 data), which is higher than in a large number of countries. [34/] Civil service salaries are 13% and 430% higher in Senegal than in a group of eight CFA countries and in a group of six non-CFA countries, respectively. [35/]

- Case studies indicate that labor costs are significantly higher in Senegal than in countries with higher income levels. For example, labor cost is 100% higher than in Thailand in the tuna-canning industry (an important manufacturing activity in Senegal) and 40% higher than in France in the

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32/ See Berg (1990) p. 116.

33/ See ILO Study "Etude sur les coûts salariaux et la fixation des salaires au Sénégal," October 1990. This study was conducted for the government of Senegal in the context of SAL IV.

34/ 9.1% in the case of Côte d'Ivoire, 5.9% for Cameroon, 4.8% for Morocco, 3.5% for Tunisia, less than 2% for Mauritius, Malaysia and Ghana.

35/ The eight CFA countries are Burkina Faso, Chad, Mali, Niger, Togo, Benin, Senegal, Côte d'Ivoire. The six non-CFA countries are Zaire, The Gambia, Guinea, Ghana, Mauritania, Morocco. See Berg (1990) p. 15.

cement industry.[36] Senegal's share in the world market of canned tuna exports declined by half between 1976 and 1986 (from 12% to 6%) in favor of Thailand which was a newcomer in the world market and which, unlike Senegal, was taxed 24% to enter the European market.

- In the tourism industry, second to the fishing industry in foreign exchange earnings, the occupancy rate went from 45% in 1984 to 38% in 1989; below what is considered necessary to break even. The cost of tourism in Senegal compares unfavorably with Senegal's competitors such as Morocco, Tunisia, Côte d'Ivoire, Seychelles and Egypt.

- Finally, the cost of fuel and electricity involved in the production of a ton of cement in Senegal is 3 times the level in France, partly due to the high domestic energy cost which is 2 to 2.5 times world prices. The high domestic energy cost is a result of the heavy budgetary dependance for revenue on the energy sector. The contribution of the sector to the budget amounts to 22% of total tax receipts and this is after the July 1991 price reduction.

3.13 The frequent changes in import policy and the subsequent distortions send the wrong signals to an already weakened and uncompetitive industrial sector. Moreover, export subsidies, which are critical for offsetting the distortion in the economy related to high cost of production as well as an overvalued exchange rate, have not been paid over the past two years because of government fiscal crisis. It should be highlighted, however, that some industries did adjust to a more open economy by restructuring themselves and improving their efficiency. As discussed in Chapter 4, some firms had increased their labor productivity and changed the composition of their output. Through improved productivity, the reforms have also led to a decline in prices.

C. The Supply Response

3.14 The cornerstone of the stabilization program in Senegal has been the compression of demand, primarily through private consumption and investment. This contraction was more pronounced during the second half of the 1980s than the first half. Gross domestic investment in Senegal had averaged 12% of GDP during 1980-85 and 12.4% during 1986-90, a ratio which does not compare favorably either with Sub-Saharan Africa (15.5% of GDP) or with what is required to prevent the stock of capital from deteriorating (13% of GDP[36]). Low private investment can be attributed to the stringent credit policies adopted by government to reduce domestic demand. Despite the significant improvement in the fiscal position, government continued to experience negative budgetary savings (tax revenues minus current expenditures), necessitating large

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36/ See Jean-Paul Barbier, "Réflexions sur la compétitivité, comparisons Afrique-Asie," CCCE, May 1989.

36/ World Bank (1992d) para 32.

budgetary support from external donors, a situation which is clearly not viable in the long run. Foreign savings (measured by the current account), which were needed to finance not only gross domestic investment but also a large proportion of domestic consumption during the first half of the 1980s, are now needed to finance only about 60% of gross investment. Sluggish growth in private consumption resulted in higher domestic savings which turned positive in 1986 and now represent 8.8% of GDP. One of the most likely explanatory factors for the increase in the savings ratio is the positive real interest rate throughout the 1980s (except in 1980 and 1984).

3.15 Notwithstanding the poor quality of national accounts, the average annual economic growth rate in the second half of the 1980s, a period of structural adjustment, was 3.5%, compared to 2.2% in the first half of the decade. This compares well with the population growth rate of 2.9% [37/] and the long-term historical economic trend of 2.1% (1960-80). Senegal's performance during the first half of the decade was extensively analyzed in the 1987 Country Economic Memorandum [38/] and GDP growth was adversely affected by the severe drought of the 1983-84. In spite of its relatively small share of GDP, agriculture continued to have a major impact on overall growth through the multiplier effect on the rest of the economy. The performance of the real sectors of the economy, namely agriculture and manufacturing, is discussed in detail in Chapter 4.

3.16 Is the Senegalese economy now more efficient and diversified than prior to adjustment? The question of efficiency is exceptionally hard to address because of external factors and the time lag. Two indicators are used to shed light on this question: the incremental-capital output ratio (ICOR) and the export growth of the manufacturing sector. The decline in the investment ratio to GDP during the period 1986-90 was not accompanied by a declining economic growth and thus resulted in a steady improvement of the ICOR; the 5-year lag ICOR went from 5.5 in 1982 to 3.5 in 1990. This favorable trend could be explained by such factors as favorable weather conditions, the excess capacity in many industries and better selectivity in public investment projects. It is unlikely however that it can be sustained without major replacement of the old equipment and machinery. As with respect to manufacturing exports, there is no hard evidence that exports increased in a meaningful way during the period 1986-90, largely because of the overvaluation of the exchange rate and the lack of reliability of the export subsidy scheme. The elasticity of non-traditional exports with respect to GDP is estimated at 0.24 during the adjustment period, compared to 0.19 during the first half of the 1980s.

3.17 There has been little diversification in the structure of the economy over the decade of the eighties. The share of the primary sector in GDP remained almost unchanged, with the drop in the shares of agriculture and forestry offset by the increase in the share of livestock and fishing during the second half of the decade. The share of

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37/ This is an average rate for the period between the last two population censuses held in 1976 and 1988. For more recent years, the population growth rate is estimated at 3.2%.

38/ See World Bank (1987a).

the secondary sector (essentially the informal sector) increased by less than a full percentage point of GDP at the expense of the tertiary sector (essentially the government services) during the same period. The increase in the share of the informal sector, both in manufacturing and services, is, to a certain extent, a good indication of the large number of constraints still faced by the formal sector.

D. Summary

3.18 Using the "before and after" methodology to evaluate the impact of adjustment on economic performance, Senegal emerges as having achieved mixed results during the adjustment period. Furthermore, these results do not compare favorably with the expected results of adjustment, as envisaged in five consecutive PFPs, in part because of poor reform implementation, real exchange rate appreciation, external shocks, and optimistic assumptions embedded in PFPs.

3.19 Senegal reduced by half its macroeconomic imbalances during the 1980s, especially since 1983, through demand compression in private consumption, investment, and expenditures on priority areas. This achievement, particularly in the fiscal area, remains fragile, and, unless additional structural reforms in civil service and tax collections are introduced, it will not be sustained and may lead to a deterioration in long-term growth of the economy and in the competitiveness of Senegal. As a result of the lack of significant real progress on the fiscal side, Senegal continues to rely on large petroleum revenues (to the tune of 22% of tax revenue) and large external sources to finance its budgetary deficit. Improvement in the current account of the balance of payments is largely due to a sharp decline in prices since 1986 for the country's major import items, petroleum products, and rice. Export performance has been erratic with an overall disappointing trend.

3.20 Competitiveness of the Senegalese economy has not improved during the adjustment period. The real exchange rate has significantly appreciated and the cost of production has remained high. Furthermore, the frequent changes in tariff and taxation policies and the distortions entailed, together with the poor implementation of export subsidies, send the wrong signals to an already weakened and uncompetitive industrial sector.

3.21 The average annual economic growth rate in the second half of the 1980s, a period of structural adjustment, was 3.5% (compared to 2.2% in the first half of the decade) which compares favorably with the past trend, and a population growth rate of 2.9%. This relatively favorable growth should be cautiously interpreted given the poor data quality, particularly for the period under adjustment. In spite of its relatively small share of GDP, agriculture, whose performance was largely determined by weather conditions, continued to have a major impact on overall growth through the multiplier effect on the rest of the economy. While there has been some improvement in the investment allocations, there has been little diversification in the structure of the economy. Furthermore, the level of investment has dropped to below the minimum level for preserving existing infrastructural assets in Senegal.

4

Sectoral Outcomes of the Adjustment Program

4.1 This chapter assesses the impact of the adjustment program on key sectors of the economy, namely agriculture, manufacturing, public enterprises, education and health. Other sectors such as tourism and fisheries are not examined here due to lack of information. An attempt is also made to evaluate the impact of adjustment on income distribution.

A. Agricultural Sector

Introduction

4.2 In contrast to most African countries, the agricultural sector in Senegal accounts for only a modest share in GDP (12%), but employs about 60% of the labor force and provides a living for over two-thirds of the population. It also accounts for a large portion of foreign exchange earnings, with groundnut export earnings (US$161 million in 1990) ranking second to fish exports (US$200 million). Although declining in relative importance, groundnuts account for about 60% of farm cash income.

Impact of the Reform Program

4.3 During the second half of the 1980s, agricultural production registered a significant revival, albeit the depressed level following the severe drought of 1983-84. This performance contrasted significantly to that of the early 1980s, which was poor, largely due to poor-to-average rains. In volume terms, food crops and cash crops production increased by a total of 18% and 10% respectively. Being primarily rain-fed, the agricultural sector in Senegal depends on climatic conditions more than any other factor. This is clearly reflected in the downward trend of total cultivated acreage. Acreage under food crops production has remained almost unchanged, whereas acreage under export crops production has sharply declined (Table 4.1). The implication of an increase in production and a drop in acreage is high yields. Yields per ha have increased on average by 17% for food crops and 25% for export crops. The extent to which the increase is due to improvement in the quality and availability of inputs as well as in technology is not known. However, there is evidence that these factors could not have played an important role. For instance, fertilizer use, a key input, had dropped from 75,000 tons in 1980 to 25,000 tons in 1990.

Table 4.1: Senegal Key Agricultural Indicators, 1980-90

	Annual 1980-85	*Average 1986-90*	*Changes in % 86-90/80-85*
Value Added (CFAF,b, in constant 1987 prices)	152.7	271.9	11.9
Agriculture Production (000 t)			
food crops a/	841.0	993.0	18.1
export crops b/	773.5	850.2	9.9
Total Acreage (000 ha)			
food crops a/	1293.0	1299.0	0.5
export crops b/	1010.0	880.6	-12.8
Real Producer Prices (1980=100)			
food crops a/	105.4	106.7	1.2
export crops b/	102.8	100.7	-2.0
Food Imports c/			
value ($ m)	227.0	257.0	13.2
volume (000 t)	476.0	420.0	-11.8
Export crops			
value ($ m)	114.0	127.0	11.4
volume (000 t)	241.0	316.0	31.1
Internal Terms of Trade (1987=100) d/	94.3	97.0	2.9
Nominal Protection Coefficient e/			
Millet (lower fleuve)		1.3	
Maize (casamance)		1.6	
Rice (upper fleuve)		2.0	
Cotton (eastern Senegal)		1.1	
Groundnuts (gr. basin)		1.8	
Domestic Resource Costs f/			
Millet (lower fleuve)		0.9	
Maize (casamance)		1.0	
Rice (upper fleuve)		1.0	
Cotton (eastern Senegal)		0.9	
Groundnuts (gr. basin)		1.3	

a/ Millet, sorghum, maize, paddy, and cowpeas.
b/ Oil groundnuts, confectionery groundnuts, and cotton.
c/ Rice, wheat, other foodstuffs. Volume relates only to rice and wheat.
d/ GDP deflators of primary sector over secondary sector. Primary sector includes agriculture, livestock, fishing, forestry. Secondary sector includes groundnuts oil, mining, construction, energy and other.
e/ Coefficients calculated for Dakar using 1986-87 world prices and semi-intensive technology.
f/ Ratios calculated for Dakar using 1988-89 world prices and semi-intensive technology.

Sources: Senegal Macroeconomic Update Report, 1992 and "Senegal's Structure of Protection and Cooperative Advantage in Cereal and Export Crop Production," Holland and Jones, March 1991.

4.4 Given the strong land population pressure, total food crop area must have declined significantly on a per capita basis during the 1980s. The implication of this is, barring any technological improvement, a deterioration in the labor productivity.

4.5 The shift toward food crops (mainly millet and maize) and away from export crops (mainly groundnuts) has been more pronounced in the second half of the 1980s. This can be explained by the favorable price differential between food crops and export crops due to government policy measures undertaken in the 1980s. The government adopted a policy aimed at raising producer prices of key commodities, causing producer prices for food crops to increase faster in real terms than cash crops. As shown in Table 4.1, while producer prices for food crops increased on average by 6.7% in real terms for food crops during 1986-90 in comparison with 1980-85, producer prices for export crops increased by only 0.7%. The insignificant increase in producer prices for export crops is a reflection of the government's decision in 1988 to reduce the producer price of groundnuts from CFAF 90 to 70 per kg as a result of unfavorable world prices. Within the food sector, the ratio of millet to rice prices moved only slightly in favor of millet, reflecting the lack of implementation of the government food "self-sufficiency" policy.

4.6 Although Table 4.1 indicates a slight shift of the internal terms of trade to the primary sector (agriculture, livestock, fishing, and forestry) and away from the secondary sector (manufacturing, mining, construction, and energy), this shift should be interpreted with caution as it is not statistically robust. The shift, if any, in the internal terms of trade, combined with declining real urban wages (para 3.12) has led to improved rural incomes compared to urban incomes. Yet the increase in rural incomes was not sufficient enough to offset the decline in farm cash incomes when compared to the 1960s and 1970s. The real value of marketed output in 1986-90 had fallen by 38% compared to the 1960s, due to the dramatic shift toward food crops and away from groundnuts. This undermines the ability of rural populations to use adequate inputs in their production, as illustrated by the significant drop in fertilizer use, and to maintain their demand level of manufactured goods and services.

4.7 Indicators of production incentives and efficiency such as nominal protection coefficients (NPC) and domestic resource costs (DRC) have been calculated for five major crops [39/] (millet, maize, rice, cotton, and groundnuts) for the 1987-89 period. The study [40/] concludes that among the cereals, millet and maize have a considerably higher comparative advantage in many producing areas than rice which receives more protection than it needs to sustain present level of production. On the other hand, millet and maize have barely adequate protection to sustain production for local consumption in many producing areas. Of the cash crops, cotton has a higher comparative advantage than groundnuts but receives barely enough protection to maintain production, whereas groundnuts receives quite substantial protection. The most important finding is that far too many resources have been devoted to irrigated rice production, a sector which has yet to be significantly reformed despite several attempts.

39/ If the domestic price is higher than the border price because of tariffs or import controls, i.e. NPC higher than one, then domestic producers benefit from protectionist policy. If the opposite is true, then the domestic price is lower than the border price due to import subsidies or price controls. This implies taxation of domestic producers. If the DRC is less than one, the crop activity is making good use of domestic resources to generate or save a unit of foreign exchange. In this case, there is a comparative advantage since the country earns or saves foreign exchange through production.

40/ See Jones and Holleman (1991).

4.8 Cereal imports (rice and wheat) have declined by 11.5% during the period 1986-90 compared to 1980-85. This is a result of both a good harvest and the relative emphasis on the production of domestic cereals, namely millet, sorghum and maize. To a certain extent, it is also a reflection of continued import controls on rice and wheat. Over the same period, the two main traditional export items, groundnuts and fish, increased in volume terms by only 19% and 4%, respectively.

B. Industrial Sector

Introduction

4.9 The industrial sector value-added (comprising manufacturing, construction, mining and energy) was 24% higher in 1986-90 than in 1980-85 and its share in GDP went from 17.6% to 18.2% during the same period (Table 4.2). The manufacturing sub-sector, which currently accounts for over two-thirds of the sector's value added, has experienced a decelerating growth since independence: 6.1% per year during 1960-70, 5.3% during 1970-80, and only 1.2% during 1980-85. The sub-sector's growth is mostly attributable to import substitution which reached its limit by mid-1980s. Employment in the manufacturing sector more than doubled between 1960 and 1985 (3% p.a.), with most of the increase happening during 1960-75. Thus, by mid-1980s the manufacturing sector lost its momentum for growth and employment for a host of factors.

4.10 Sector constraints were well identified prior to adjustment reforms. They consisted of the inefficiency of import-substitution strategy conducted in a non-competitive environment characterized by a cumbersome regulatory framework, distorted incentives system, a small internal market, and high factor costs, particularly labor and energy. These constraints were combined with Senegal's inability to resort to exchange rate adjustment policy which proved to be crucial, particularly in more recent years, when the exchange rate became substantially overvalued. In 1986, Senegal embarked on a new industrial policy (known by its french acronym NPI) whose main objective was to introduce a more competitive industrial structure and enable the private sector to play an increasing role in growth and employment. To improve the competitiveness of Senegalese firms, government decided, among other things, to reduce trade protection as well as the costs of key inputs, including petroleum and electricity.

Impact of the Reform Program

4.11 It is difficult to assess the impact of the adjustment reforms on the performance of the industrial sector for the following reasons: the reform program has only been partially implemented, the adjustment period has been too short, and the external conditions characterized by substantial depreciation in the currencies of competing countries with Senegal. The discussion below covers the manufacturing sector (essentially the modern sector) and is based on the findings of a number of recent studies, including two Bank studies. [41/] Key industrial sector indicators are presented in Table 4.2.

4.12 Overall, manufacturing production increased in real terms by a total of 32% over the period 1986-90, compared to 1980-85. The increase is solely accounted for by the informal sector, notwithstanding the lack of robust data. The informal sector became vibrant as a result of a shift in demand from the formal to the informal sector. Production in the modern sector declined on average by 5 percentage points between 1982-85 and 1986-89, with the production of the 30 major industrial products declining by 34%. The industries that did well were mining, chemicals, and energy—industries that were generally not directly affected by the reforms. On the other hand, the performance of the sector is more positive in terms of turnover. While 14 out of 19 industries surveyed in 1990 showed negative turnover during the pre-adjustment period (1982-86), only seven industries showed negative turnover during the adjustment period (1986-90).

4.13 In terms of employment, there was a net loss of about 3,200 permanent jobs, or 9.3% of the modern sector's total employment, during the period 1986-90. It can be argued that the bulk of the losses was due to the liquidation of a few companies which were bound to be closed with or without adjustment reforms. Also, there is evidence that the loss of employment in the modern sector was offset by job creation in the informal sector. While there was an overall decline in the investment level, 10 out of 16 industries did reduce their investment during the period of adjustment, and capacity utilization did improve—seven out of 16 industries surveyed had a capacity utilization above 60%, the level achieved in 1985.

4.14 The reform program resulted in both the establishment of new firms and the closing of non-performing ones. Although hard data is not available, there is evidence (judging from the number of approved projects [42/]) that a number of firms were created during the adjustment period, mainly small-scale agro-industries, oriented towards exports. On the other hand, between 1986 and 1989, 53 firms were closed, some of which reopened later on. An examination of the six most important ones [43/] reveal that over half of their assets were bought by similar companies, thus the reform program had led to a major restructuring of the industrial sector.

41/ These studies are: "Evaluation de la nouvelle politique industrielle au Sénégal," AF5IE, World Bank, April 28, 1992 and "Small Enterprises Under Adjustment in Senegal," Industry and Energy Department, World Bank, March 1992.

42/ In 1988, the government approved 59 projects totalling CFAF 8 billion which created 175 jobs (for about US$150,000 per job).

43/ These are BATA (shoe), STS (textile), SAPAL (tuna), SARDINAFRIC (seafood), MANUTENTION AFRICAINE (vehicle), and TREFILERIE DE DAKAR (engineering).

Table 4.2: Senegal Key Industrial Indicators

	Annual Average		*Changes in %*
	1980-85	*1986-90*	*86-90/80-85*
Industrial Sector			
Value added (CFAF billion, in constant 1987 prices)	209.2	259.9	24.2
(as a % of GDP)	17.6	18.2	3.4
Employment	62,778 a/	56,474	-10.0
Manufacturing Sector *			
Production Index	100.0 a/	95.1	-4.9
Value Added (CFAF billion, in constant 1987 prices)	143.7	189.5	31.9
(as a % of GDP)	12.1	13.0	7.4
Employment (permanent)	34,016 a/	30,855	-9.3
Export Subsidy (CFAF, billion)	8.1 b/	5.4 f/	-33.3
Wages/cost of production (%)	8.2 c/	10.1 g/	23.2
MLT Credits (CFAF, billion)	24.7 d/	19.2 e/	-22.3
Effective Protection Rate (%)	165 c/	98 h/	-40.6

a/ = 1982-85, b/ = 1986, c/ = 1985, d/ = 1985, e/ = 1986-89, f/ = 1987-89, g/ = 1988, h/ = 1990
* Defined as oil milling plus the category of "other".

Source: Macroeconomic Update Report, August 1992.

4.15 A firm-level Bank survey of 63 enterprises (representing at least 17% of the number of firms in the sector 44/) conducted in 1990 suggested that small-scale enterprises are more dynamic than both micro and medium- and large-scale enterprises. 45/ Liberalization policies in Senegal have led to serious difficulties for large scale firms that had benefitted from past protection against imports and local competition, more than for the other two categories of firms. This survey shows that SSEs may have in fact compensated for the decline of large firms in spite of the weak demand growth in Senegal since 1986. A substantial share of small firms have managed to increase output and profits. In addition, a high proportion of SSEs were post-NPI creations, suggesting a relatively high rate of new investment at this level.

4.16 To better analyze the firms' adjustment responses, the sample was divided into three categories: firms which increased production, those which experienced no

44/ This is calculated on the assumption that the number of modern industries remained at its 1986 level of 367.

45/ These are defined in terms of employment: macro-enterprises (1-9), small-scale enterprises (10-49) and medium and large-scale enterprises (50 and more).

substantial change, and those which decreased output. For each of these categories, Table 4.3 indicates the share of firms adopting the following measures of response (or flexibility factors): increased imported input, changed product mix, bought new equipment, and adopted an export-oriented strategy. The table shows that manufacturing firms that successfully expanded after 1986 were relatively flexible. The study also shows that SSEs did prove to be more flexible than others. Thus, while only 34% of the industries in the sample saw their production increase in 1990, 50% of SSEs did. The ratios are 52% for the sample and 57% for SSEs in terms of diversification of production, and 52 % and 60%, respectively in terms of new equipment.

Table 4.3: Distribution of Flexibility Factors by Production Trend (Industry Sample, Percent of Respondents)

Production response	*All*	*Increased imported raw materials share*	*Changed product mix*	*Bought new equipment*	*Are exporters*
Increased output	34	67	42	39	45
Maintained output	24	13	24	19	14
Decreased output	42	20	33	42	41
Total	100	100	100	100	100
Number of respondents	63	15	33	31	23

Source: Parker and Steel (1992): "Small Enterprises under Adjustment in Senegal," Annex 4.7.

4.17 According to the same industrial survey, the main factors hindering production were low import prices (the case of 41% of firms in the sample), excess imports (36%), and high domestic competition (26%). Investment was constrained by high interest rates (89%), lack of easy access to credit (73%), and high cost of inputs (54%). Also, government's negative attitude towards the private sector remains a major obstacle to industrial development (36%).

4.18 Regarding the labor factor, the survey found that only 5% of all firms interviewed (10% in the case of firms employing 50 or more) consider that salaries for qualified workers are too high; and that 10% of all firms (19% in the case of those with 50 and more employees) consider labor force a constraint on their operations. [46/] This should not come as a surprise since the labor regulations do not seem to be enforced except in the case of well-established firms. This argument should not however diminish

46/ See Parker and Steel (1992), Annex Tables 4.11-12.

the importance of deregulating the labor market, for it is still a major deterrent factor for potential investors. 47/

4.19 Although the reform of the financial sector has created a more solid banking system and restored confidence in the banking system, Senegal's banks have now become much more risk-conscientious and show a marked preference for short-term trade-related lending at the expense of long-term investment lending. Short-term credit now accounts for 70% of total lending; two-thirds of that are for the financing of trade and commerce. Lending to industrial activities declined from 21% of total credit in 1986 to less than 15% in 1990. The upshot of this trend is that Senegalese-owned firms, especially small-and medium-sized ones, are finding it much harder to have access to credit to finance long-term investments.

4.20 In the manufacturing sector, domestic producers have been unable to adapt quickly to the new competitive environment, which is the direct result of the above deregulations in prices and markets as well as trade liberalization. The main reasons are the lack of progress on the exchange rate, labor, and energy that have persisted through the entire adjustment period. Labor costs, for instance, went from 8.2% of total cost of industrial production in 1985 to 10.1% in 1988. 48/ While some industrial firms have closed between 1987-89 following the trade liberalization, several others took advantage of the improved incentives system to increase their productivity and diversify their production. 49/ In sum, there is no hard evidence to support the claim of the critics of adjustment that trade liberalization has led to de-industrialization in Senegal.

47/ A recent ILO study dismisses, on the basis of limited evidence, the argument that the wage level is an obstacle to employment creation. The ILO study (1990) is particularly weak on the issue of comparative wage costs. The comparison between Senegal, and Côte d'Ivoire and Cameroun is misleading. It is neither surprising, nor particularly interesting, that Senegal's wage levels are comparable to Cameroun and CIV. There is significant evidence that suggests that wage levels in CFA countries are significantly higher than in non-CFA countries at the same level of per capita income. The report also observes a significant decline in labor cost per unit of 20% over the period 1982-87 and concludes that profits should have increased by that much. This may not have been the case if, as is quite plausible, there has been a decline over time in the labor intensity of Senegalese production. The conclusion of the report that the wage level in Senegal is not an obstacle to employment creation does not stand up on the basis of the limited evidence presented in the report.

48/ See World Bank (1992a), para 52.

49/ A sample survey of 31 manufacturing firms conducted in 1990 showed that half of them had increased their labor productivity and changed the composition of their output. Eighteen non-profitable firms were closed between 1987 and 1989, but several of them have reopened under new ownership. The impact on employment has generally been negative, reflecting the stagnation of the sector and the high cost of labor. Through improved productivity, the reforms have also led to a decline in prices in about 75% of the sub-sectors examined. See World Bank (1992d).

C. Public Enterprises Sector

4.21 Is the PEs sector now smaller and more efficient than before the adjustment program? The first part of the question is discussed in Chapter 2 and the answer is yes (see para 2.101). While the PE reform program has been moving forward, much remains to be done to achieve the government's objective. To provide a satisfactory answer to the second part of the question, detailed information on individual enterprises is needed. At present, only a few indicators on selective companies are available. First, there have been improvements in internal management as a result of the following measures: the transformation of all "*établissements publics*" of a commercial or industrial nature into independent "*sociétés nationales*" and the inclusion of all administrative type EPs in the central administration, the curtailment in the roles of the supervisory agencies, the improvement in the selection of PE Boards of Directors, and to some extent, the generalization of contract plans. Second, Berg noted, on the basis of estimates of productivity in five key enterprises over the 1980-88 period, that productivity has not improved. [50] It should be added that since 1988, several positive developments have taken place as a result of the implementation of key reforms, suggesting an improvement in the productivity of some key enterprises in the sector. To illustrate this, the following three companies are discussed here: Sénélec (the power company), PAD (the port authority), and SNCS (the railway authority).

4.22 In the early 1980s, Sénélec, was transformed into a "société nationale" with the responsibility of operating and developing the power sector. Its managing board members and managing director were, however, appointed by the government. Sénélec's development projects and its tariff modifications also needed government's approval. During the preparation and implementation of the First Energy Sector Rehabilitation Project (1987), a set of corrective measures was prepared and embodied in a Contract Plan between the government and Sénélec. These measures aimed at improving the financial performance and management of Sénélec. Some positive results have been achieved—in particular, tariff adjustments were increased several times during the 1980s. On average, electricity prices doubled between 1980 and 1986, mainly because of a sharp increase in petroleum products prices. Subsequently, Sénélec's financial situation improved. Apart from this positive achievement, implementation of the Contract Plan has been globally disappointing: (i) the payment by the government of administration electricity bills is still a problem and has led to setting up cross-debt compensation operations between Sénélec and the administration; (ii) the operation of power system facilities and customer management is still very weak; (iii) recent audits indicate problems in day-to-day management and, more seriously, a lack of transparency in several financial transactions. These problems are the managing director's responsibility and their persistence shows that the managing board does not fully assume its role in the company's best interest for a healthy future. In conclusion, the results of the Contract Plan have been mixed—slightly positive from the financial point of view, but with little

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50/ These are OPCE (post), SENELEC (electricity), SNCS (railways), SOTRAC (urban transport), and SONES (water). See Berg (1990) p. 35.

improvement in overall management. The Contract Plan has helped identify performance goals that can be measured and monitored.

4.23 Contract plans have been signed between government, PAD, and SNCS. These contract plans proved useful in clarifying responsibilities between government and the two companies, and in improving the management of these companies. Both PAD and SNCS were transformed into "*sociétés nationales*" from "*établissements publics à caractère industrial et commercial*" and "*régies.*" The new structure allowed for greater autonomy of management and has improved fiscal and economic performance. The companies gained more freedom to adjust tariff rates to meet their financial objectives. Government has not, however, lived up to its commitment under the contract plans to stop interfering in day-to-day management matters (for example, personnel and procurement) and to siphon off the cash liquidity of PAD which was originally earmarked for the financing of heavy maintenance operations. One positive outcome of the contract plans is improved transparency. Audits of contract plans look at the companies' and the government's compliance and make interference and mismanagement known and public.

D. Social Sectors and Income Distribution

4.24 Despite stagnant and declining real per capita public expenditures on education and health during the 1980s, as discussed in Chapter 2, the education and health status in Senegal has improved. [51/] In education, overall enrolment increased by one-third between the first and the second half of the 1980s, with secondary and tertiary [52/] school enrolment increasing slightly faster than primary school enrolment and female enrolment growing faster than male. As a result, primary enrolment ratio went from 46% to 55% between 1980 and 1988. Regional differences have also narrowed markedly. The increase in students has been matched by a parallel increase in the number of teachers, therefore preserving the student-teacher ratio. On the other hand, most student performance indicators (dropout rates, repetition rates) are at or near the levels found in 1980. In the health sector, standard indicators of health status show a marked improvement in the 1980s. Life expectancy increased from 45 years in 1980 to 48 in 1988, while infant mortality declined from 14.7 (per thousand live births) to 8.6 during the same period. There has also been a sharp decline in the morbidity rates for major diseases in the 1980s, largely attributed to a successful series of vaccination campaigns. The share of children immunized went from 17% to 70% during the period under review.

51/ This section draws on the findings of Berg (1990), pp. 191-206.

52/ University enrolment has increased significantly in the recent past, a reflection partly of the increased length of time that students take to complete a degree. Because of the difficulty of finding employment after graduation, students prolong their university schooling as long as possible. The University of Dakar is currently overcrowded, with an enrolment in 1989 of about 16,500 students, twice its capacity.

4.25 How can these positive achievements be reconciled with the decline in social spending? In education, teachers salaries were restrained during most of the 1980s, thus allowing more teachers to be hired. Teachers in administrative positions (estimated at 1,262 between 1985-1988, and somewhat less than that in 1990 following the restructuring of the civil service), were redeployed to teaching positions. And major innovations were introduced in primary education: mixed-grade classes and double shifts allowed more efficient use of classrooms and teachers. In the health sector, reallocation of resources in favor of primary health care resulted in a sharp increase in the number of posts and health "huts" in the 1980s. Another explanatory factor is the increase in private and donor financing. User fees became more common during the 1980s, probably as a result of the budget cuts. According to the 1991 PER, "the structure of health sector financing has shifted away from government sources to non-governmental sources with an increased contribution from external financing." In 1989, 33.4% of the sector funding was channeled through the budget, 11.4% came from local funds (mainly modern enterprises), 17.3% from external financing, and the remainder 37.9% from private sources. [53/] Finally, the increased effectiveness of preventive health services such as the antimalarial program, maternal and child health care programs, and the expansion program of vaccinations. It should be stressed that these achievements in social indicators are not only poor in comparison with countries at Senegal's level of income but, more importantly, represent short-term gains which cannot be sustained given the current pattern and level of resource allocations to the social sectors.

4.26 The impact of adjustment policies on various social groups is mixed. Overall, there has been a clear improvement in the rural-urban terms of trade in favor of the rural sector due more to the drop in urban incomes than to increases in rural incomes (para 4.6). The objective of raising real prices to agricultural producers was only partially achieved. Real producer prices for millet, sorghum, and rice were 7-19% higher in 1989 than in 1980, but producer prices for cotton and groundnuts, the main source of farm cash income, were 5-10% lower. Thus the weighted real producer price for major crops did not improve. Real consumer prices on the other hand were lower by 20-50% for millet, rice (broken) and wheat. Consumers benefitted during the 1980s. Real income declined for public wage earners, with incomes of unskilled labor (those paid at or near the legal minimum wage) declining less rapidly than those for skilled labor. Thus there has been a move towards a less skewed wage income distribution during the 1980s.

4.27 The impact of adjustment on employment is hard to assess given the scarcity of data. It is estimated that a minimum of 8,500 jobs would have been lost since 1986: some 700 (or 41% of the sector) as a result of bank restructuring, some 800 (about 3.5% of the sector) as a result of PE liquidation, nearly 3,800 (about 6% of the number of civil servants just prior to the adjustment) as a result of civil service reforms, and 3,200 (9% of the modern sector employment) as a result of the New Industrial Policy. In the case of the banking and civil service restructuring, support in the form of project financing helped mitigate the impact on those losing their jobs. Those who lost their jobs

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53/ See World Bank (1991b), Annex 2, p. 63.

received on average CFAF 5 million (the equivalent of 32 months of salary) in the case of the banking sector, and CFAF 4.2 million (38 months of salary) in the case of the civil service. While hard data is not available, it is believed that most of the separation pay was used for consumption or debt repayment. Only a small number of those who lost their job managed to re-integrate in productive economic activities.

4.28 Two observations can be made regarding the employment trend. First, the number of civil servants increased by 16% between 1980 and 1985 and then declined modestly (by 7%) between 1985 and 1990, in spite of the voluntary departure program. Additional recruitment offset the benefit of the voluntary departures program. Second, although data on employment in the manufacturing sector is limited, there is evidence that employment started to pick up in 1989 just after the decline mentioned above. Other reform measures, namely the improvement in the incentive system, account for the slow recovery. The use of temporary contracts would not only have allowed for more flexibility in the distribution of labor costs but would hopefully improve productivity by changing worker's attitude. The social safety net programs have, as discussed earlier, contributed, though modestly, to an increase in employment.

4.29 In sum, there is some evidence that the Senegalese experience with adjustment during the 1980s, and particularly since 1986, has proved to be less of a burden on the poor segments of the society than was suggested by the critics. This is in line with the findings of Berg, "The Senegalese experience ... does not support the argument that the "social costs" of adjustment fall most harshly on the poorest, either in its income distribution results or in its predictions that social sector spending suffers disproportionately, with long-term negative consequences for the poor." [54/]

E. Summary

4.30 During the structural adjustment period 1986-90, agricultural production registered a significant revival from the depressed level following the severe drought of 1983-84. The increase in production happened largely due to favorable weather conditions, in spite of a drop in cultivated land. While there is indication that internal terms of trade have slightly shifted in favor of agriculture and away from industry, this shift should be interpreted with caution as it is not statistically robust. Production of food crops increased faster than cash crops, largely as a result of internal trade liberalization and producer price differentials in favor of food crops. Because of both good harvests and favorable domestic cereal prices, cereal imports (rice and wheat) dropped significantly during the adjustment period. Indicators of production incentives and efficiency show that among the cereals, though millet and maize have a considerably higher comparative advantage than rice, they have barely adequate protection to sustain production for local consumption. Far too many resources have been devoted to irrigated rice production, a sector which has yet to be significantly reformed. Of the cash crops,

54/ Berg (1990), p. 205.

cotton had a higher comparative advantage than groundnuts but received barely enough protection to maintain production. The prospects of the agricultural sector remain dependent on the exchange rate policy, the terms of trade for cash crops, and the climate conditions.

4.31 Regarding the manufacturing sector, production increased in real terms faster during the adjustment period than during pre-adjustment, owing to a vibrant informal sector. There has been a demand shift from formal to informal sectors as a result of trade liberalization combined with the lack of progress on the real exchange rate depreciation, energy cost reduction, and labor and wage liberalization. Liberalization policies have led to serious difficulties for large-scale firms that had previously benefitted from protection against imports and local competition. The large industries that did well were mining, chemical, and energy—industries that generally were not directly affected by the reforms. The reform program led to a major restructuring of the manufacturing sector. It resulted in both the establishment of new firms—mainly small-scale agro-industries, oriented towards exports—and the closing of non-performing ones. Small-scale enterprises are more dynamic than medium- or large-scale enterprises. SSEs may have in fact compensated for the decline of large firms in spite of the weak demand growth in Senegal since 1986. A substantial share of small firms have managed to increase investment, output and profits. Manufacturing firms that successfully expanded after 1986 were relatively more flexible in changing the output-mix, purchasing new equipment, and adopting an export-oriented strategy. Overall, the manufacturing sector has been partially restructured with medium- and large-scale industries still operating under protection. Partly because of trade liberalization reversal, and partly because of dynamic small-scale enterprises, Senegal has not experienced de-industrialization as suggested by some critics.

4.32 The public enterprise sector is now smaller (see para 2.101) and, most likely, more efficient than before the adjustment program. To provide a definite answer to the question of efficiency, detailed information on individual enterprises is needed. While the PE reform program has been moving forward, much remains to be done to achieve government's objectives.

4.33 Despite stagnant and declining real per capita public expenditures on education and health during the 1980s, the primary education and basic health status in Senegal has improved and regional differences have also narrowed markedly. This was made possible because of the following government actions. In education, teachers' salaries were restrained during most of the 1980s, thus allowing more teachers to be hired; teachers in administrative positions were re-deployed; and major innovations were introduced in primary education, mixed-grade classes and double shifts allowed more efficient use of classrooms and teachers. In health, some of the explanatory factors are: reallocation of resources in favor of primary health care, increased private and donor financing, and increased effectiveness of preventive health services. It should be stressed that these achievements in social indicators are not only poor in comparison with countries at Senegal's level of income but, more importantly, represent short-term gains which cannot be sustained given the current pattern and level of resource allocations to the social sectors.

4.34 The impact of adjustment policies on various social groups has been mixed. But overall, there has been a clear improvement in the rural-urban terms of trade in favor of the rural sector. This is due more to the drop in urban incomes than to increases in rural incomes. Consumers came out beneficial during the 1980s. Public wage earners had declining real income over the 1980s, with incomes of the unskilled labor declining less rapidly than those for skilled labor. Thus there has been a move towards a less skewed wage income distribution. The impact of adjustment on employment is hard to assess given the scarcity of data. It is estimated that a minimum of 8,500 jobs (about 6% of total employment in the modern sector in 1986) would have been lost since 1986, largely in the modern manufacturing sector and the civil service. Most job losses in manufacturing was due to the liquidation of a few companies which were bound to be closed with or without adjustment reforms. There is evidence that the loss of employment in the modern sector was offset by job creation in the informal sector. The social safety net programs have contributed, though modestly, to an increase in employment. Project financing helped mitigate the impact on those losing their jobs. There is also evidence that employment started to pick up just after the decline. In sum, there is some indication that the Senegalese experience with adjustment during the 1980s and particularly since 1986, proved to be less of a burden on the poor than was suggested by the critics of adjustment.

5

Lessons Learned and Recommendations

Limitation of Internal Adjustment

5.1 *The internal adjustment process pursued in Senegal has not produced the results set out in the government's medium-term financial program and in the PFPs.* To achieve competitiveness, Senegal has attempted to correct both external and internal imbalances through reducing domestic expenditures, adjusting internal prices and wages, and adopting second-best trade policies. In retrospect, the deflationary policy has led to severe fiscal compression and cuts in public spending on priority areas. Inadequate administrative capacity has severely limited the effectiveness of second-best trade policies, and no credible income policy has been pursued. Consequently, the internal adjustment process has not produced the needed depreciation in the real exchange rate and, as a result, exports have not performed well, domestic industry could not compete against imports, and there has been private disinvestment. In the future, freezing nominal wages to maintain domestic inflation below international inflation and thus achieve real depreciation over time will not work. With a 2 percentage points yearly differential, it would take Senegal 15 years to reduce relative production costs by one-third in real terms. Also, austerity programs cannot be steadily implemented over many consecutive years. The best option available for Senegal, in collaboration with the other UMOA members, is to use the exchange rate as a policy instrument.

5.2 *The financial stabilization achieved so far by Senegal is fragile and does not provide the basis for longer-term sustained growth.* It has led to the emergence of conflict between fiscal imperatives leading to higher taxation and competitiveness imperatives requiring a drastic reduction in the cost of production. It has also led to a reduction in public and private investments, in operations and maintenance expenditures, in expenditure on human resource development, and in the provision of adequate public services—all crucial elements for longer-term growth and development. While the achievements in income growth and in the social indicators associated with a more efficient utilization of capital and a reduction in spending are desirable, these are of short-term benefit.

Public Sector Management

5.3 *Public sector management has improved overall, but misallocation of public resources remains a problem.* Wages and salaries continue to be disproportionate with respect to expenditures on maintenance and operations, and unless the size of the civil service is reduced drastically, the fiscal situation as well as the productivity of the civil service will deteriorate rapidly. Notwithstanding the mismanagement of civil service recruitment, the voluntary departures program was successful and should be pursued. The cost of the program should be somewhat reduced and its financing should come from potential savings by reducing the number of civil servants and not, as was the case under SAL IV, solely from external sources. The government should assume more responsibility.

5.4 *While inter-sector allocations appear satisfactory, intra-sector allocations remain a problem in agriculture, education, and health.* Expenditures on irrigation were made at the expense of extension and research services, those on higher education were made at the expense of primary education, and those on health curative system were made at the expense of preventive health care. Apart from the agricultural sector, where a proposed government sector reform program is under discussion with the Bank and major donors, the adjustment process has yet to deal with the social sectors in a more comprehensive manner. A good start in reforming the social sectors has been made in the health sector under the First Human Resources Development Project (approved by the Board in 1991); but not much has been done in the education sector—the sector in urgent need of restructuring. With the completion of the PER study and the higher education sector study, there is now a good analytical base on which the government can embark on restructuring the education sector. To achieve the social targets spelled-out in government medium-term programs, a major shift of resources towards primary education and basic health care should take place. But given the scarcity of resources in Senegal, alternative ways have to be found to deliver key services. In this respect, the private sector must be allowed to take an increasingly important role.

5.5 *More vigorous state-shrinking is imperative.* The recent progress in privatizing public enterprises in Senegal can be attributed to a change in government strategy towards being pragmatic and to an aggressive leadership on the part of those in charge of the privatization program. Such a strategy gave a central role to financial discipline of the PE sector through the "hardening" of the budget constraint (by reducing net fiscal transfers from government to PEs) over privatization. It gave equal emphasis to divestiture and other forms of privatization such as contracting out and franchising. The privatization strategy also gave priority to profitable and viable enterprises over those financially non-sound enterprises. It is recommended that the implementation of this strategy continue vigorously and that key enterprises, including the groundnut oil processing company (SONACOS) and the utility companies be next in the privatization process.

5.6 *In designing the adjustment program, it is imperative to take into account the full social costs of the adjustment process.* In Senegal, this was done in an ad-hoc manner rather than as part of the overall macroeconomic framework. In other words, little effort has been made to build anti-poverty objectives into the ex-ante design of the adjustment program. This was largely due to lack of information about the people expected to suffer the most from the reforms. With the completion of the household surveys, providing a better database on the profile of various social groups in Senegal, particularly the poor, the new generation of adjustment operations should integrate social aspects into the macroeconomic framework of adjustment rather than deal with them in a separate component.

External Aid Addiction

5.7 *Senegal's reliance on external budgetary assistance has increased substantially over the years. This reliance, combined with the lack of real sanctions by donors, has been a major explanatory factor for Senegal's slow progress in adjustment.* External budgetary assistance is viewed by some government officials in Senegal as an "entitlement" to be counted on for years to come or as a line item in the budget similar to tax revenues or salary expenditures. In the past, the high level of aid had unintentionally impeded adjustment. Large sustained flows of foreign aid, with soft conditions, reduced Senegalese political determination to implement hard reforms. For instance, Senegal had postponed real changes in income and labor policy, in the agricultural rice sector, and in petroleum taxation policy and yet it continued to receive quick disbursements from the donor community, including the Bretton Woods institutions. This assessment is also supported by the findings of the Berg study. According to this study[55], large external inflows "reduced Senegalese political will to make changes necessary for adjustment and slowed Senegalese political maturation by allowing the postponement of hard economic and social choices." The study adds that "Senegal is not only aid addicted, but needs continuing high levels of support to ease the structural changes that were postponed in the 1980s." This poses a serious dilemma of ODA equity among adjusting countries. It is recommended that further adjustment support for Senegal be selective (as a large number of reforms remaining to be implemented do not require major external financing), and conditional to the implementation of up-front key policy measures. Over time, external assistance should shift back to investment.

The Enabling Environment

5.8 *While macroeconomic stabilization and relative price reforms are necessary, a healthy business environment is essential for a quick recovery of private investment and growth.* The business environment is defined in the World Bank Third Report of Adjustment Lending (RAL III) as encompassing: the degree of certainty about government policies, the quality and sophistication of the legal and regulatory framework, the state of physical infrastructure, and the efficiency of labor and financial markets. As discussed in Chapter 2, while progress has been made in all four years, only in the financial sector has it been fully satisfactory. With government preoccupied with short-term financial crises, fiscal policies became unpredictable and, in some cases, policies were simply reversed. The mutual distrust between government officials (who traditionally perceived their role as one of controlling the economy) and private businessmen rendered difficult the design and implementation of reforms. The legal and regulatory framework, in spite of the progress made in improving the incentives system (by revising the investment code and establishing a one-stop investment window), in reducing the cumbersome control system of the PE sector (shifting controls from a-priori to a-posteriori), and in reforming the tax administration system, the judiciary system is

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55/ See Berg (1990), p. 224.

not working efficiently. The physical infrastructure is deteriorating as adequate resources for maintenance and operating expenses are lacking. The deficiency of the labor market is the most important outstanding area of reform. Where Senegal has introduced legal changes, the attitudes of the civil servants and, as expected, the labor unions towards the private sector have remained hostile. It is recommended that future adjustment programs focus more on the enabling environment.

Government Ownership

5.9 *For any program to be successfully implemented, it has to be owned by the government and must be accompanied by consensus-building efforts among the various interest groups.* This has not always been the case in Senegal despite the good intention of the government and donors, including the Bank. The government's resolve to take actions agreed under the program has weakened, particularly after the 1988 election when the adjustment program became increasingly biting. Although the commitment to adjustment appears strong at the highest official level, in practice the authorities are increasingly reluctant to oppose the interest groups who stood to lose most from the reforms. These groups are mainly the labor unions, the civil service and the religious leaders (*marabouts*).[56] Towards the latter part of the adjustment process, the technocrats who gained power in the early years of the adjustment process, become increasingly more politicized and less interested in longer-term structural changes.

5.10 Recognizing the major shortcoming in the lack of government ownership, and the shift in government focus away from fundamental structural changes to short-term financial management, the government and the Bank organized a retreat (known as *Les Journées de réflexions*) to deal with these issues. Thus, in January 1992, almost the entire Senegalese Cabinet of Ministers and the AF5 Department Management Team as well as most of the Country Team members, met in Saly, Senegal for three consecutive days to *listen* to government concerns and exchange views outside the usual forum of negotiations. This proved to be extremely useful in bringing the awareness of the government to the changing world in which Senegal has to adapt and to the urgent need for deeper reforms. It is recommended that this experience be repeated in Senegal and replicated in selected countries.

The Adjustment Process and Sequencing

5.11 *The adjustment process has taken longer than expected in Senegal, and yet it is far from being complete.* Although Senegal is classified in RAL III as an intensive adjusting country, with four SALs, two SECALs, and an IMF ESAF program, key

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56/ For more discussion of the lobbies for and against adjustment see Ka and van de Walle, "The Political Economy of Adjustment in Senegal: 1980-1991," (mimeo), May 15, 1992, pp. 47-59: "The government chose to avoid a frontal attack on these groups in the early years of the PAML. Although it is true that the public sector was hurt by the general deflationary trend, reforms of the civil service, education and the Labor Code were not addressed in a sustained manner until 1987. The government seemed to have adopted the strategy of delaying the most difficult reforms and front-loading the easy reforms."

structural areas (such as higher education, the labor market, the wage bill and the legal environment) remain to be addressed. In addition, the real exchange rate remains significantly overvalued.

5.12 *The packaging and sequencing of the reform measures are as critical as the policy content of the adjustment program itself.* The scope of earlier adjustment operations was too big, involved too many agencies, and put a serious strain on government's limited capacity to implement the adjustment program. The shift from SALs to SECALs helped mitigate this problem by designing smaller operations, with fewer, well defined, and increasingly up-front conditionalities. [57]

5.13 *The sequencing of the reforms has not been without serious flaws.* In addition to the lack of exchange rate policy, the decision to proceed with the liberalization of the external trade before establishing an effective tax administration, eliminating labor rigidities, and reducing the cost of production, reflects insufficient consideration given to the sequencing of reforms. Similarly, the decision to proceed with the civil service departure program before establishing a robust database on wages and civil servants, and a monitoring system also reflects a deficiency in the sequencing of reforms. The banking sector reform, although well implemented, should have been carried out earlier, especially if the severity of the crisis was already known. Finally, the privatization of public enterprises ought to have been initiated once a good regulatory and incentives framework was in place.

5.14 A summary of the major lessons learned and recommendations is presented in Box 5.1.

57/ A review of Bank adjustment lending operations in Senegal suggests that whenever feasible, dated covenants should be avoided so as to allow greater flexibility for the government in achieving its objective targets and for the Bank in assessing government's compliance. This issue arises from the government's main concern to meet the agreed target in form but not in spirit. The government has often managed to comply with a specific conditionality at a given time, but soon thereafter, the conditionality was reversed or made null. An example is two civil service conditions—the wage bill and retrenchment targets—agreed under SAL IV. The government met the two conditions on the specified target date, June 30, 1990, owing in part to the "accounting" manner *(cavalerie budgétaire)* in which the targets were met, but failed to sustain the targets achieved partly because the implementation of other measures contradicted the spirit of the reform program.

Another idea emerging from the adjustment experience in Senegal is the manner in which the tranche release conditionalities are worded. There is merit in some cases in linking tranche release conditions to program components as opposed to conditions across components. While this may slow disbursement, it reduces the risk of not fully achieving the objectives of each component of the reform program.

Box 5.1: Lessons Learned and Recommendations

Adjustment Process and Sequencing

1. The *adjustment process has taken longer than expected*, and yet is still far from being over. Serious distortions remain in the real exchange rate, the labor market, the civil service, the legal systems, agriculture, education, and health. These distortions should be the focus of future reform programs.

2. While macroeconomic stabilization and relative price reforms are necessary, a healthy *business environment* is essential to a quick recovery of private investment and growth. This should be the focus of future reform programs in Senegal.

3. *The sequencing of the reforms* has not been without serious flaws. In addition to the lack of real exchange rate policy, the decision to proceed with the liberalization of the external trade before establishing an effective tax administration, eliminating labor rigidities, and reducing the cost of production, reflects insufficient consideration given to the sequencing of reforms. Proceeding with the civil service departure program before implementing a database and not implementing the banking sector reform early enough, also reflect deficiencies in the sequencing of reforms. Finally, the privatization of public enterprise ought to have been initiated once a good regulatory and incentives framework was in place.

4. The *social costs of adjustment* were not introduced into the adjustment process as part of the overall macroeconomic framework. The completion of household income and expenditure surveys will provide the necessary data for anti-poverty policy formulation.

5. The *shift from SALs to SECALs* has reduced the strain on government's limited capacity to implement adjustment programs and has helped it focus on a smaller number of well-defined, and increasingly up-front policy reforms.

6. The success of *reform implementation* seems to have been due to a combination of three elements: the degree to which there is consensus-building; the level of commitment of the core team in charge of formulating and coordinating the reform program; and the nature of the reform programs themselves—the more biting these were, the more reluctant government was to implement them fully. The high-level retreat organized by the government and the Bank in January 1992 proved to be useful in shifting government's focus away from short-term financial considerations toward fundamental structural changes. Retreats of this kind could well be replicated for selected countries with equal benefit.

Adjustment Outcomes

7. The *deflationary policy* pursued in Senegal since the mid-eighties has produced limited results as measured by the income and export performance. The best option remaining is for Senegal to use the exchange rate as an active policy instrument in collaboration with other UMOA members.

Box 5.1: Lessons Learned and Recommendations

Adjustment Outcomes (*Continued*)

8. Notwithstanding external shocks, the ***supply response*** in agriculture and manufacturing during the adjustment period has been positive, though modest. The growth in the manufacturing sector is accounted for by the informal sector and small-scale industries; medium- and large-scale industries (excluding mining, chemical and energy) have not performed well.

9. The ***financial stabilization*** achieved to date is fragile and cannot provide the basis for long-term financial equilibria and sustained growth unless the conflict between budget-revenue requirements and competitiveness imperatives are resolved. Adequate resources need to be allocated toward investment, operations and maintenance, and human resource development. ***Intra-sector misallocations*** remain a serious problem in agriculture, education, and health. Expenditures on wages and salaries, and transfers to public enterprise sectors should be drastically reduced.

10. The Senegalese experience with adjustment has proved to be less of ***a burden on the poor***, mostly rural, than was suggested by the critics of adjustment.

11. The success of the ***privatization*** of public enterprises is attributed to a change in government's strategy towards being pragmatic and to an aggressive leadership on the part of those in charge of the privatization program. The focus on viable enterprises and the tightening of the budget also precipitated the privatization process. It is recommended that this strategy continue, and that key enterprises, including the groundnut oil processing company (SONACOS) and the utility companies, be privatized.

12. Excessive ***external budgetary assistance*** proved to be a disincentive for implementing difficult reform measures. Future adjustment support to ease the structural changes postponed in the 1980s should be selective and conditional upon the up-front implementation of policy measures. Over time, external assistance should shift back to investment.

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STATISTICAL APPENDIX TABLES

SA Table 1: Senegal Major Macroeconomic Indicators of Adjustment Results, 1980-91 (in percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	80-85	86-90
A. GDP & Sector Growth (%)														
GDP	-3.0	-1.2	15.3	2.2	-4.2	4.0	4.6	4.0	5.1	0.4	4.5	1.2	2.2	3.5
Agriculture	-18.3	-5.8	24.7	4.9	-17.6	8.0	10.2	2.7	9.6	-10.2	9.8	-2.5	-0.7	4.4
Manufacturing	8.0	15.8	10.9	1.2	-0.2	1.7	5.4	8.9	10.0	3.0	4.7	1.2	6.2	6.4
B. Investment & Savings (as % GDP)														
Investment	15.3	11.9	11.3	11.9	11.7	9.8	11.0	12.4	12.7	12.7	13.3	13.7	12.0	12.4
Savings	-0.4	-7.5	-1.0	-0.4	2.2	-1.4	5.6	6.8	7.7	7.5	8.6	8.8	-1.4	7.2
Consumption	100.4	107.5	101	100.4	97.8	101.4	94.4	93.2	92.3	92.5	91.4	91.2	101.4	92.8
C. Public Finance (as % GDP)														
Revenue	23.0	19.4	20.1	19.7	19.4	18.8	17.9	18.8	17.5	16.8	16.9	18.9	20.1	17.6
Expenditure	28.6	31.9	28.1	28.5	25.2	23.5	21.7	21.4	20.1	20.9	21.2	18.7	27.6	21.1
Wages	11.3	12.1	11.0	10.4	10.3	9.8	9.1	9.0	8.5	8.6	8.2	8.1	10.8	8.7
Fiscal balance	-5.5	-12.5	-8.0	-8.8	-5.8	-4.6	-3.9	-2.6	-2.6	-4.1	-4.3	0.2	-7.6	-3.5
D. External Sector (as % GDP)														
Current Account	-18.3	-25.7	-19.6	-18.6	-17.6	-17.6	-11.8	-10.2	-9.5	-9.2	-7.8	-8.6	-19.6	-9.7
Exports of GNFS	28.3	32.1	34.2	32.9	37.9	29.7	26.5	25.0	25.2	26.7	25.2	25.2	32.5	25.7
Imports of GNFS	44.0	51.4	46.5	45.2	47.4	40.9	31.9	30.6	30.2	31.9	29.9	30.2	45.9	30.9
Resource balance	-15.7	-19.3	-12.3	-12.3	-9.5	-11.2	-5.4	-5.6	-5.0	-5.2	-4.7	-4.9	-13.4	-5.2
E. Terms of Trade Index (85=100)														
Total	95.0	101.0	88.0	86.0	98.0	100.0	106.0	103.0	102.0	99.0	101.0	0.0	94.7	102.2
Groundnut oil	94.9	115.2	64.6	78.5	112.3	100.0	62.9	55.2	65.2	85.6	106.5	0.0	94.3	75.1
Petroleum	0.0	0.0	0.0	0.0	104.7	100.0	51.2	65.9	52.5	63.7	81.7	0.0	34.1	63.0
Real Exchange Rate	103.0	91.0	93.0	92.0	89.0	100.0	125.0	133.0	122.0	115.0	125.0	0.0	94.7	124.0
F. Other Indicators														
Inflation rate (%)	11.8	7.5	9.5	9.0	12.8	9.1	7.6	2.0	2.1	1.4	2.9	2.1	10.0	3.2
Real Interst rate (%)	-1.3	3.0	3.0	1.5	-2.3	1.4	0.9	6.5	7.4	9.6	8.1	8.9	0.9	6.5
ICOR (5-Year lag)	12.3	0.0	5.5	3.2	7.5	4.2	2.7	5.3	4.1	3.7	3.5	4.6	5.4	3.8

Source: Senegal - MACDATA, Macroeconomic Update, August, 1992 and BESD (October, 1992).

SA Table 2: Senegal Projections and Actual Outcome of Key Macroeconomic Indicators a/ b/

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
A. GDP Growth Rate (%)										
Actual	4.2	4.2	5.5	-0.8	3.6	1.3	2.3			
PFP I	4.1	4.3	3.7	3.8						
PFP II		4.4	4.2	3.8	3.5					
PFP III			4.4	4.2	3.5	3.6	3.8			
PFP IV				0.6	4.6	3.7	3.8	3.8		
PFP V					3.6	1.3	5.1	3.7	3.8	3.8
B. Fiscal Deficit (excluding grants, % of GDP) c/										
Actual	-3.9	-2.6	-2.6	-4.1	-4.3	0.2	-1.0			
PFP I	-2.3	-0.9	-0.2	0.7						
PFP II		-1.4	-0.5	0.2	1.2					
PFP III			-1.0	0.2	0.6	1.9	2.7			
PFP IV				-4.0	-2.8	-1.5	0.8	2.3		
PFP V					-4.5	0.1	1.3	1.8	2.1	2.2
C. Current Account Deficit (excluding official transfers, % of GDP)										
Actual	-15.6	-11.3	-11.4	-10.0	-8.4	-8.9	-8.4			
PFP I	-13.2	-10.3	-8.6	-6.6						
PFP II		-10.8	-9.2	-8.2	-7.3					
PFP III			-9.9	-9.1	-7.8	-6.5	-5.4			
PFP IV				-9.6	-8.3	-6.9	-6.1	-5.2		
PFP V					-8.8	-7.2	-6.2	-5.3	-4.4	-3.9
D. Investment/GDP (%)										
Actual	14.2	13.7	12.5	12.6	13.4	13.7	13.5			
PFP I	14.3	13.7	13.8	13.8						
PFP II		14.0	14.0	14.0	14.0					
PFP III			14.9	14.5	14.6	14.9	14.9			
PFP IV				15.0	15.2	16.2	17.5	17.5		
PFP V					12.7	12.9	12.3	12.4	12.4	12.5
E. Savings/GDP (%)										
Actual	4.2	6.9	7.2	7.5	8.5	8.8	8.5			
PFP I	5.7	8.6	10.7	11.1						
PFP II		8.2	9.5	10.5	11.5					
PFP III			10.2	10.6	11.8	13.2	14.1			
PFP IV				8.9	10.2	12.2	14.1	14.7		
PFP V					8.3	9.2	9.4	10.1	10.8	10.9
F. Export Volume Growth (%)										
Actual	14.0	2.9	-2.4	5.7	3.8	-2.8	-3.2			
PFP I	1.4	11.8	7.3	3.0						
PFP II		7.9	14.2	7.8	6.7					
PFP III			16.3	9.5	6.8	6.1	6.5			
PFP IV				4.0	-2.2	5.7	5.4	5.1		
PFP V					-7.3	7.9	7.6	7.8	4.3	3.9

Source: PFPs (various issues) plus other internal Bank documents.

a/ The first year of any series of projections is often an estimate made within a short period from the actual outcome.

b/ Figures in this Table are in FY and may differ from those in SA Table 1 which are in CY.

c/ Fiscal deficit is calculated before debt rescheduling.

SA Table 3: Senegal GDP & Key External Factors

Year	*GDP Growth (%)*	*Terms of Trade 1985=100*	*Rain a/*	*Fund/Bank Support b/*	*Other Factors*
1975	7.6	100	Good		
1976	8.7	91	Good		
1977	-1.5	102	Average		
1978	-5.9	106	Good		Election
1979	8.6	100	Average	SBA	
1980	-3.0	95	Poor	EFF/SAL 1	
1981	-1.2	101	Average	SBA	
1982	15.3	88	Average	SBA	
1983	2.2	86	Poor	SBA/SAL 1 canceled	Election
1984	-4.2	98	Average	CG	
1985	4.0	100	Average	SBA	
1986	4.6	106	Average	SBA/SAF/SAL 2	
1987	4.0	104	Average	SBA/SAF/SAL 3/CG	
1988	5.1	102	Good	ESAF	Election
1989	-0.4	99	Good	ESAF/FSECAL	Border problems
1990	4.5	101	Good	SAL 4	
1991	1.2			ESAF/TSECAL	

a/ Poor (less than 600 mm of rain), Average (between 600 and 800 mm), Good (more than 800 mm).

b/ SBA = Standby arrangement, SAL = Structural Adjustment Loan, CG = Consultantive Group, (E) SAF = (Extended) Structural Adjustment Facility, FSecal = Financial Sector Adjustment Loan, TSecal = Transport Sector Adjustment Loan.

Source: Macroeconomic Update (August 1992) and SA Table 1.

SA Table 4: Senegal Bank & Fund Financial Support of Government Adjustment Program

	Effectiveness Date	*Closing Date*	*Amount, excl. Cofinancing a/*	*Number of Tranches*
A. IDA ($ millions)				
SAL I	3/81	6/83	60	2
SAL II	2/86	6/87	64	2
SAL III	5/87	2/90	85	3
FSECAL	12/89	2/92	45	2
SAL IV	2/90	1/92	80	3
TSECAL	2/92	1/96	15	3
Total			349	
B. IMF (SDRs millions)				
Stand-by Arr.	3/79		11	
Extended Arr.	8/80		185	
Stand-by Arr.	9/81		63	
Stand-by Arr.	11/82		47	
Stand-by Arr.	9/83		63	
Stand-by Arr.	1/85		77	
Stand-by Arr.	11/86		34	
SAF (year 1)	11/86		17	
Stand-by Arr.	10/87		21	
SAF (year 2)	10/87		26	
ESAF (year 1)	11/88		60	
ESAF (year 2)	12/89		43	
ESAF (year 3)	6/91		17	
Total			662	

Sources: World Bank and IMF internal documents.

a/ Data rounded up.

SA Table 5: Implementation Status of Major Policy Reforms in Senegal, 1980-91

Reform Measures	Implementation Date	Implementation Status
A. Fiscal Policy		
• Improve Revenue Performance		
- Rationalize the tax system (new customs code, new general tax code, a global income tax to replace the schedular system, corporate income tax at 35%, introduce gradually VAT).	1987, 1990	Implemented
- Improve tax administration (restructure customs and tax departments, computerize customs clearance procedures).	1987-1990	Not Effectively Impl.
- Revise tax on urban property (cadastar for Dakar).		Not Implemented
- Introduce cost recovery		Not Implemented
- Reduce budgetary subsidies to PEs	1986-1991	Not Effectively Impl.
- Re-examine the special tax agreements		Not Implemented
• Control spending and Reallocate Resources to Priority Sectors		
- Contain the wage bill by reducing the number of civil servants and by avoiding salary increases	1986-1990	Not Effectively Impl.
- Restructure civil service to improve its efficiency (reduce number of departments)	1990	Not Effectively Impl.
- Make adequate provisions for O&M and for social sectors		Not Implemented
• Improve Investment Programming		
- Introduce a 3-year rolling PIP with emphasis on maintenance and productive activities	1986-1991	Continuous
- Consolidate PIP with Government's budget		Not Implemented
• Improve Debt Management		
- Limit commercial borrowings	1986-1991	Implemented
- Settle external arrears	1986-1991	Implemented
B. Monetary Policy and Banking Reforms		
• Adopt Restrictive Monetary Policy	1983-1991	Implemented
• Adopt Flexible Interest Rate and Credit Policy		
- Abolish the preferential rate, widen interest margins	1990-1991	Implemented
- Ensure real positive interest rates	1986-1991	Implemented
- Liberalize credit allocation system (replacement of bank-by-bank ceilings with market-oriented mechanisms - reserve requirements)	1990-1991	Implemented
- Introduce a new crop credit system	1990-1991	Implemented
- Shift toward a "true" money market system based on a lender-offer system for central bank money		Not Implemented
• Restructure the Banking System		
- Liquidate (ONCAD, BSK, develop Banks: BNDS, Sofisedit, Sonaga/SONA banque Assoc. Bank); reduce government ownership to maximum 25% (Massraf, BIAOS, BICIS, CNCAS); rehabilitate and restructure the financial position of (Massraf, BIAOS)	81,86,88-91	Implemented
- Establish a network of grass-root banks		Not Implemented
- Recover non-performing assets of restructured or liquidated banks		Not Effectively Impl.
• Improve the Legal and Institutional Framework		
- Improve banking supervision (establish a Supranational Bank Commission)	1989-1990	Implemented
- Revise UMOA banking laws	1990-1991	Implemented
- Develop a capital market		Not Implemented
C. Exchange Rate Management		
• Adopt a deflationary policy to reduce real effective rates		Not Implemented
D. Domestic Price and Trade Policy		
• Decontrol Prices		
- Eliminate most domestic price controls and abolish the office in charge of price controls	1980,87,89,90	Implemented a/

Reform Measures	Implementation Date	Implementation Status
- Decontrol meat prices	1987	Implemented
- Decontrol local price of rice (while providing an adequate degree of protection for local cereals		Not Implemented
- Link producer prices of groundnuts and cotton to world prices, while ensuring adequate incentives to producers		Not Implemented
- Link domestic petroleum product prices to world prices	1991	Not Effectively Impl.
• Deregulate Agricultural Marketing		
- Liberalize domestic marketing of agricultural inputs (liquidation of SONAR) and cereal outputs other than rice (reduce the role of food security commission)	1986	Implemented
- Eliminate SERAS monopoly on skins and hides	1987	Implemented
- Eliminate gradually agricultural input (groundnut seeds, fertilizer) subsidies	1980,86-89	Implemented
- Curtail the role of rural development agencies (SAED, Sodagri, SODEVA, Sodefitex, and Somivac)	1980,1986	Implemented
- Privatize the Groundnut Oil Processing Company, SONACOS		Not Implemented
• Eliminate special agreements (monopoly) particularly for sugar, cement, and petroleum		Not Implemented
• Reduce Cost of Production		
- Reduce Energy Prices (5%-25%), telephone tariffs, port handling	1991	Not Effectively Impl.
E. Labor and Wage Policy		
• Liberalize Labor Markets		
- Revise labor laws and regulations (labor and investment codes, ZFID chart) to liberalize hiring and firing policies. Abolish government labor office approval	1987,1989	Not Effectively Impl.
- Stop government automatic hiring policy from training schools		Not Implemented
• Move Towards Market Determined Wages		
- Revise labor laws and regulations		Not Implemented
- Implement a new remuneration system based on productivity of the civil service		Not Implemented
F. External Trade Liberalization		
• Reduce Non-Tariff Restrictions		
- Eliminate prior authorization of imports, eliminate reference prices (valeurs mercuriales) eliminate import bans	1986-1988	Implemented b/
- Eliminate import monopoly on rice, sugar and petroleum (through the revision of special agreements		Not Implemented
• Introduce Tariff Reform		
- Reduce the number of tariff categories to four (reduced rate, ordinary rate, increased rate and special rate)	1986-1988	Implemented b/
- Reduce the tariff levels (average ERP went from 165% in 1985 to 89% in 1988 - the trend reversed subsequently)	1986-1988	Implemented b/
• Improve Export Incentives		
- Adopt a duty drawback scheme	1980	Implemented
- Adopt and expand a direct export subsidy scheme (20% of export value-added covering a list of about 100 items). Strengthen export promotion and insurance agencies	1980, 1986	Not Effectively Impl.
G. Public Enterprise Reform		
• Improve the Financial Relationship Between Government and PEs		
- Reduce in nominal terms government direct subsidy to PEs	1986-1991	Not Effectively Impl.
- Reduce indirect subsidy (overdrafts, subsidized interest rate)	1986-1991	Not Effectively Impl.
- Settle all cross-debts between Government and PEs	1987,1991	Implemented
- Adopt preventive measures for the recurrence of cross-debt		Not Effectively Impl.
• Restructure the PE Sector		
- Implement a divestiture program (to date only 12% of the non-financial sector's total assets has been either liquidated or privatized (partially or totally). A total of 36 enterprises involved.	1980, 86-91	Continuous

Reform Measures	Implementation Date	Implementation Status
- Privatize key enterprises such as SONACOS (groundnuts, oil processing) and utility companies.		Not Implemented
- Clarify the responsibilities of Government and PEs vis-a-vis each other through the use of performance contracts (to date 24 PCs out of 44 planned have been signed)	1980,86-91	Not Effectively Impl.
- Rehabilitate physically and financially key PEs (a total of 20 PEs out of 27 planned have been completed so far)	1986-1991	Implemented
• Improve the Regulatory and Institutional Environment		
- Amend existing laws and regulations	1987,1990	Implemented
- Restrict the role of supervisory bodies (Audit Commissions, etc.) to a posterior role	1990	Implemented
- Transform all commercial public establishments into either autonomous or adminstrative entities	1990	Implemented
H. Improve the Enabling Environment		
• Simplify the cumbersome legal and administrative regulations (commercial code, judicial system)		Not Implemented
• Improve investment incentives system.		
- Revise investment code with emphasis on labor-intensive technology and on exports. Extend the concept of free zone (ZFIFD) to "point franc"	1987, 1990	Implemented
- Establish a "one-step window" (Guichet Unique) to speed up approval of private investment projects.		
I. Sector Reforms		
• Reform the Education Sector		
- Restructure higher education system, reallocate resources to primary education		Not Implemented
• Reform the Health Sector		
- Reallocate resources to basic health care		Not Implemented
• Control Population Growth		
- Adopt a population policy and implement the policy	1988	Not Effectively Impl.
• Reform the Agricultural Sector		
- Reform the Rice, Cotton and Groundnuts Sectors		Not Implemented
- Establish a land tenure system		Not Implemented
J. Social Safety Nets		
• Adopt social safety net measures to reduce the transitional cost of adjustment		
- Establish a national employment fund to assist laid-off workers in mounting projects	1987	Not Effectively Impl.
- Implement public works programs using labor intensive methods.	1990	Implemented
- Restructure the budget to ensure adequate provision of resources to primary health care and primary education		Not Implemented
• Improve the database on the most vulnerable socio-economic groups (household survey)	1987	Continuous

a/ Prices of 14 items remain controlled

b/ There has been a gradual policy reversal since 1989

Sources: World Bank SALs and Secals documents, Policy Framework Papers, Government's Medium-Term Program for Economic and Financial Adjustment (PREF)

SA Table 6: Senegal Actual Divestiture Program, 1980-91

Actual Outcome	*Number*	*Assets (CFAF b., 1985)*	*Gvt equity*	*Gvt equity as % Assets*
• Non-financial	36	23.0	8.3	38%
Privatized	21	17.5	7.0	40%
Liquidated	15	5.5	1.8	33%
• Financial	11	17.6	7.8	44%
Privatized	5	9.3	3.0	32%
Liquidated	6	8.3	4.8	57%
• Total	47	40.6	16.6	41%
Privatized	26	26.8	10.0	37%
Liquidated	21	13.8	6.6	48%
Of which				
SAL IV	28	22.2	8.3	37%
FSECAL	7	11.4	5.9	51%
• Total (PE sector)	113	217.7	157.0	72%
Non-financial	99	197.7	147.1	74%
Financial	14	20.0	9.9	49%

Source: Staff estimate based on SALs/FSECAL documents.

SA Table 7: Government Transfers to Public Enterprises
(in CFAF billion)

	1988/89	*1990/91*
Direct Government Transfers (net)	14.2	n.a.
Operating Subsidies	12.3	8.3
(To Commercial PEs)	0.9	0.1
Equipment Subsidies	1.9	n.a.
Indirect Transfers (Private and Public)	80.0 a/	n.a.
(Tax and import duty exemptions)	58.0 a/	n.a.d/
(Financial preferential treatment)	18.0 a/	n.a.d/
Gross-debt Arrears (non-financial PEs)		
Owed by PEs to Government	57.4 b/	5.6 e/
Owed by Government to PEs	48.9 b/	1.2 e/
Accumulated Overdrafts to "établissements publics"	16.7 b/	n.a.f/
(Estimated annual increase)	2.0	0.0 g/
Banking Borrowings	188.0 c/	n.a.h/
(As % of total credit to the economy)	41%	n.a.

a/ Average for the period 1984-89.
b/ Stock as of December 1989.
c/ 1987 figure.
d/ Exemptions limited to only those under the investment code and special agreements (until expiration dates).
e/ Being settled over a three-year period.
f/ Settled through write-offs and reschedulings.
g/ No more overdrafts allowed and the Treasury agency dealing with overdrafts (ACC) was closed.
h/ As part of the financial sector reform program, credits to PEs were tightened; Government also stopped guaranteeing loans to PEs. Crop credits were included as part of the credit ceilings to Government.

Sources: SAL IV President's Report (1990) and SAL IV Supervision Aide Memoires.

STATISTICAL APPENDIX FIGURE

SA Figure 1: Senegal Economic Indicators (Actual vs. Projections)