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MACRO - ECONOMIC ISSUES & AID ASSISTANCE  
BALANCE OF PAYMENTS & AGRICULTURAL PRICING  
REFORMS IN SENEGAL: AN ANALYSIS

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FOR USAID/SENEGAL  
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Recevez, Monsieur, l'expression de notre considération distinguée.

*L. Berger*  
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MACRO-ECONOMIC ISSUES AND AID ASSISTANCE  
BALANCE OF PAYMENTS & AGRICULTURAL PRICING  
REFORMS IN SENEGAL : AN ANALYSIS

I. - BACKGROUND

1. - In recent years, the thinking on the effectiveness of AID development assistance has begun to shift slowly but surely. Increasingly, under pressure from AID/W and through the efforts of the more dynamic mission Directors, the attention has focused on the impact of major macro-economic issues (now facing the LDC's) on the productivity of AID assistance as it has traditionally been conceived.

2. - Nowhere is this question of macro-economic policy impact on development aid more relevant than in countries undergoing financial crises. For it is usually the case that such countries are or are about to be in contact with the IMF concerning financial assistance and the eventual design of a stabilization program. Thus, both the crisis itself, and the eventual stabilization program with its complementary changes in existing development strategy can seriously affect the impact of AID assistance, as spelled out in the CDSS. Usually, the CDSS, on which AID assistance is based, attempts a longer term view on which to define the types of projects best suited to meet stated objectives. In Senegal this translates itself, according to the CDSS for FY 83, in:

"The long range goal (2000 AD) of US assistance to Senegal is food self-sufficiency, defined in the broad sense as: Senegal's achievement of the capacity to feed its people, by domestic production and storage and by trade even in drought years.<sup>1/</sup>" However, the CDSS FY 83 for Senegal goes further, implicitly and explicitly recognizing the present financial situation. In this fashion, it by-passes the traditional assumption that short term financial fluctuations are the exclusive province of the multilateral donors (IMF, IBRD, UNDP, etc...) while the object of AID development assistance should be solely focused on the long term.

3. - This explicit recognition <sup>2/</sup>, that AID has not only a role to play in a joint donor-GOS approach to solving the current financial crisis but that the IMF terms and reform proposals may severely impact the longer term goal in terms of time horizon, the on-going and future benefit streams

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1/ Agency for International Development Senegal : Country Development Strategy Statement FY 83, January 1981, Washington D.C. p. 20.

2/ Jbid pp. 22-26

from AID project assistance as well as the ability of the GOS to meet recurrent cost conditions of AID financed projects, has led to a more flexible strategy proposal in Senegal. Broadly speaking, this boils down to the following AID action suggestions :

- (i) Improve the macro-economic monitoring of the Senegalese economy so as to improve the overall productivity of AID financial assistance ;
- (ii) introduce greater flexibility in AID's ability to respond to changing situations by allowing a greater latitude in the annual mix between project and non-project assistance, the implicit assumption being that during certain historical periods the non-project component may be just as important as the project component in achieving stated longer term objectives ;
- (iii) strive to achieve a coordinated donor strategy especially, but not exclusively, with the multilateral donors (IMF, World Bank) where non-project assistance could enter as a significant element in any IMF sponsored stabilization program and, by contrast, where project assistance could be better tailored to support the existing Plan and on-going World Bank financed projects; in Senegal's case particular bilateral donor emphasis should also be placed on France, and increasingly in the future on Arab donors (Saudi-Arabia, Kuwait, etc...).
- (iv) refine, within coordinated donor development and stabilization strategies, the policy dialogue with the Government of Senegal with an eye to encourage the necessary structural reforms and/or encourage the appropriate GOS actions that are pre-conditions for successful project implementation.

4. - Seen within the above context it is the purpose of this paper to:

- (i) focus on two macro-economic issues of crucial importance to Senegal's stabilization program : agricultural pricing and balance of payments/budgetary dislocations ;
- (ii) analyze Senegal's current economic situation and its future prospects based on certain specific assumptions, so as to shed some light on the importance of the above two issues for the country's future performance and by corollary for the level and mix-of AID assistance.
- (iii) examine the current GOS Reform Plan (Plan de Redressement) inaugurated in December 1979, with particular emphasis on those policies aimed at correcting structural imbalances in the area of agricultural pricing and balance of payments ;

- (iv) analyze the current (as of December 1981) posture of the GOS vis a vis the above policy reforms, past progress achieved, and future prospects for addressing these reforms, while at the same time identifying the major economic and/or political obstacles to be overcome;
- (v) recommend the most constructive strategy that USAID should pursue in furthering these reforms, whether conditioning at the macro, sector or project level, or simply through policy dialogue with appropriate GOS officials ;

II. - THE CURRENT ECONOMIC CRISIS 1978/1981

5. - The current economic crisis which is confronting Senegal did not come about randomly. Rather it is the result of a combination of factors which in isolation would not have brought about a crisis of this magnitude, but which in conjunction could only force on the GOS a series of politically unpopular policies. Most important among them are :

- (i) post independence policy choices with respect to the development strategy ;
- (ii) external factors beyond Senegal's control, with the chief culprits being too many years of inadequate rainfall since the mid-1960's and the oil price shocks of 1973/1974 and 1978/1979.
- (iv) an increasing dependence on the para-public sector as the "engine of growth" at the expense of private initiatives with all its concomitant public control, albeit highly inefficient, implications ;
- (v) an oversocialized agricultural development policy based on a highly centralized marketing organization and a complex system of<sup>3/</sup> subsidized inputs and guaranteed producer prices. It is no wonder then, that agricultural pricing and balance of payments policies should be considered key areas of reform. Indeed the growth of agricultural production is the centerpiece of any development strategy for Senegal which aims at a satisfactory growth rate in per capita income. Moreover, it is a key element in the balance of payments question, being on the one hand a main earner of foreign exchange at the export level, while on the other a mitigating factor in the food import equation.

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3/ The World Bank, Proposed Structural Adjustment Loan and Development Credit to the Republic of Senegal, Report No P-2869a-SE, November 26, 1980 p. 5.

A. - Gross Domestic Product 1975 - 1980

6. - The variations in constant 1971 prices GDP by principal sector of activity for the period 1975-1980 along with the corresponding

TABLE 1  
GROSS DOMESTIC PRODUCT BY PRINCIPAL SECTORS IN  
BILLIONS OF 1971 F. CFA : SENEGAL 1975-80

	1975	1976	1977	1978	1979	1980
Agriculture	73.3	79.2	73.5	63.9	80.7	69.0
Industry	63.8	66.6	71.7	64.1	70.4	64.0
Private Services	108.6	116.3	117.9	112.0	117.8	113.5
Public Services	32.1	36.7	38.2	37.3	37.0	36.3
GDP	276.8	298.8	301.3	277.3	305.9	282.8

SOURCE : GOS Sixth Development Plan 1981 - 1985

ANNUAL GROWTH	1975/76	1976/77	1977/78	1978/79	1979/80
Agriculture %	9.5	-7.1	-13.1	26.3	-14.5
Industry %	4.3	7.6	10.6	9.8	- 8.7
Private Services %	7.1	1.4	- 5.0	5.2	- 3.6
Public Services %	14.3	4.1	- 2.3	- 0.8	- 1.9
GDP %	7.9	0.8	- 8.0	10.3	- 7.6

SOURCE : Computation by the author

annual growth rates are shown in Table 1. Before 1975, that is from independence to the mid-1970's, Senegal's economic growth was slow and erratic, due in large part to the vagaries of the weather which tended to seriously impact the production of groundnuts. Since 1975, this erratic pattern has maintained itself as shown in the above data. Indeed over the five year period 1975-80 the growth of GDP amounted to a total of 2.1% or about 0.3-0.4% per annum. On a year to year basis there were two good growth years, 1975/1976 and 1978/1979, and two negative growth years of substantial magnitudes, namely -8% for the year 1977/1978 and -7.6% for the year 1979/80. Poor crops for groundnuts due to poor rainfall conditions severely affected the Senegalese economy in 1978 and 1980.

The following concluding observations are important for what follows:

- (i) economic growth, as exemplified by the GDP constant price accounts, continues to be slow and erratic; the five year average is about 0.4% per annum which when combined with a 2.7% per annum population growth implies a substantial decline in constant price per capita GDP of -2.3% per annum as shown in Table 2 below <sup>4/</sup>.
- (ii) The performance of the economy as a whole is highly dependent on the performance of the agricultural sector and in particular of the level of groundnut production; the latter is in turn dependent on the amount and distribution of rainfall over which Senegal has obviously no control; Table 3 highlights this relationship while underscoring the vulnerability of Senegal's economy to external climatic factors :

B. - The Structure of GDP : 1975 - 1980

- The percentage contribution in value added to constant 1971 price GDP is shown in Table 4 for the period 1975 - 1980 and the year 1960 to be considered as a post independence reference year. The data show few changes in the period 1976/1980 other than some fluctuations in the contributions of agriculture to GDP and a gradual slow increase in the contribution of public services. By contrast to the bench year 1960, however, two basic changes come to mind. These are : first, a significant increase in the industrial sector's contribution to GDP; and second, a commensurate decrease in the contributions of public and private services. Of note to the analysis, the data supports the following observations :

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<sup>4/</sup> Of course it must be noted that the 2.3 % decline per annum is measured against a bad year, 1980.

TABLE 3  
A COMPARISON OF VARIATIONS IN CONSTANT 1971 PRICE GDP,  
VALUE ADDED IN AGRICULTURE AND GROUNDNUT PRODUCTION IN  
METRIC TONS

	1976	1977	1978	1979	1980
GDP	298.8	301.3	277.3	305.9	282.8
Value Added Agriculture	79.2	73.5	63.9	80.7	69.0
Groundnuts (OOOMT)	1,412.3	1,208.5	519.0	1,053.0	650.0
Annual Growth GDP	7.9%	0.8%	-8.0	10.3%	-7.6%
Annual Growth in Groundnuts	-	-14.4%	-57.0%	102.9%	-38.3%

SOURCE : IMF Report, May 9, 1980

TABLE 2  
GDP PER CAPITA IN CONSTANT 1971 PRICES : SENEGAL

	1975	1976	1977	1978	1979	1980
GDP (billions 1971 F.CFA)	276.8	298.8	301.3	277.3	305.9	282.8
Populations <sup>5/</sup> (millions)	4.979	5.114	5.252	5.394	5.539	5.689
GDP/capita F.CFA	55 593	58 428	57 368	51 408	55 226	49 710

SOURCE : Population data from GOS Fifth Development Plan

<sup>5/</sup> according to the GOS, the most accurate population estimate is that of the 1976 census which revealed a population of 5.114 million and a population growth rate of about 2.7%. These data are used in Table 2.

- (i) the agricultural sector (broadly speaking here to include besides agriculture, livestock, fisheries and forestry), is shown to be extraordinarily constant Over time, as a percentage contributor to GDP ;
- (ii) the structure of GDP based on Table 4 data, seems to have remained fairly constant over the period 1975/1980 which when combined with the fact that GDP growth has been minimal, implies a stagnating economy in all the sectors.

9. - Further disaggregating the agricultural contribution to GDP in order to emphasize the role of the major crops as contributors to GDP <sup>6/</sup>, we have the data shown in Table 5. They indicate that the relative constancy in the overall contribution of the primary sector to GDP is achieved by the sustained growth of fisheries acting to counterbalance the relative decline in agriculture's contribution. Again the volatility of the agricultural component should be well underlined.

C. - Gross Domestic Expenditures

10. - In order to evaluate the deteriorating fiscal and balance of payments position of Senegal over the last decade, resulting primarily from the stagnating growth pattern and the highly erratic performance of the agriculture sector, it is necessary in the first instance to take a look at the evolution of aggregate demand. These components are shown for the period 1975/1980 in current prices in Table 6. What the data reveal is a substantial increase in both total consumption and gross investment expenditures over the period in question, this in the face of a stagnation in real output with only partial compensation in price. Thus it may be said that over the last five years :

- (i) the ratio of total consumption expenditures to GDP has risen from the 85% area to the 95% area with a commensurate drop in the domestic savings rate;
- (ii) in order to maintain its investment expenditures at an 18% to 20% level of GDP, the government has had to turn extensively to foreign resources which have in fact financed and ever larger share of total investments.

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<sup>6/</sup> In Senegal the major crops are : groundnuts and cotton as cash crops; millet and sorghum, rice, corn and vegetables as food crops.

TABLE 4  
SECTORAL CONTRIBUTIONS TO GDP IN  
CONSTANT 1971 PRICES

VALUE ADDED	1960	1975	1976	1977	1978	1979	1980
Agricultures %	25.0	26.1	26.5	24.4	23.0	26.4	24.4
Industry %	17.9	23.0	22.3	23.4	23.1	23.0	22.6
Private Services %	42.4	39.2	38.9	39.1	40.4	38.5	40.1
Public Services %	14.7	11.7	12.3	13.1	13.5	12.1	12.9
GDP %	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE : GOS Sixth Development Plan

TABLE 5  
PRIMARY SECTOR CONTRIBUTIONS TO GDP IN CONSTANT 1971  
PRICES

VALUE ADDED	1976	1977	1978	1979	1980
Primary Sector %	100.0	100.0	100.0	100.0	100.0
Agriculture %	54.8	51.1	38.2	49.2	-
Livestock %	-	20.7	26.4	20.8	-
Fishing %	16.8	19.3	25.0	21.7	-
Forestry %	8.1	8.9	10.4	8.3	-
% PS/GDP	26.5	24.4	23.0	26.4	24.4
% AG/GDP	18.3	12.5	8.8	13.0	-

SOURCE : IMF Report, May 9, 1980 & Senegalese authorities

11.) - The resource gap is an important measure of a country's balance between aggregate demand and aggregate supply. Senegal has consistently shown throughout its history since independence a negative resource gap. This means that the country has been, and will continue to be, dependent on external loans and grants for the maintenance of its growth rate. The more basic problem is that, while in the past the external debt did not represent a substantial burden on future export earnings, since 1975 the debt service requirements have begun to assume alarming proportions. Table 7 calculates the changes in the resource gap for the period 1975/1980.

On the basis of the data presented in Table 7 it is fairly safe to conclude that :

- (i) Senegal's resource gap, practically non-existent in the early 60's, has expanded gradually through the decade and into the early 70's;
- (ii) This resource gap has grown significantly during the 1975-1980 period and reflects the increasing inability of the economy's managers to make ends meet; it, in fact, pinpoints the onset of the financial crisis of 1978/1981 with a substantial rise from 6.7% of GDP in 1977 to 16.5% in 1978.

D. - Balance of Payments

12. - Nowhere is the present financial crisis, or for that matter its onset, more evident than in the balance of payments figures for the period 1976/1980. It is here that long term trends and external shocks combine to best illustrate the sorry state of the Senegalese situation <sup>7/</sup>. The implications of a growing resource gap exemplify sluggish exports and rapidly increasing imports, with the current account deficit being compensated in the capital account through external loans and grants.

13. - Table 8 indicates, in summary form, the major elements of the balance of payments for the period 1976/1980. Indeed, the data indicate a <sup>8/</sup>fluctuation of groundnut exports around a declining trend <sup>8/</sup>, a sustained improvement in exports of fish and fish products which offered only a partial

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<sup>7/</sup> The World Bank Report No. P-2869a-SE, op. cit. p.17

<sup>8/</sup> There were two particularly poor groundnut harvests in 1978 and 1980. The 1981 crop (i.e. 80/81) was even worse, thus aggravating an already disastrous situation.

TABLE 6  
GROSS DOMESTIC EXPENDITURES AT CURRENT PRICES : SENEGAL  
1975/1980

	1975	1976	1977	1978	1979	1980
Total Consumption	356.3	420.5	436.3	453.4	514.6	494.5
Private	294.5	348.8	361.1	369.9	419.1	403.5
Public	61.8	71.7	75.2	83.5	95.5	91.0
Gross Investment	72.3	75.7	76.9	90.0	98.0	107.5
Gross Domestic Expenditures	428.6	496.2	513.2	543.4	612.6	602.0
GDP (current)	406.4	459.3	480.9	466.4	532.6	517.0
Consumption/GDP %	87.7	91.5	90.7	97.2	96.6	95.6
Investment/GDP %	17.8	16.5	16.0	19.3	18.2	20.8
GDE/GDP	105.5	108.0	106.7	116.5	115.0	116.4

SOURCE : GOS Sixth Development Plan & Author calculations

TABLE 7  
VARIATIONS IN THE RESOURCE GAP IN BILLIONS F.CFA OF  
CURRENT PRICES : SENEGAL 1960-1980

	1960	1970	1975	1976	1977	1978	1979	1980
GDP (constant 1971)	188.7	247.5	276.8	298.8	301.3	277.3	305.9	282.8
GDP Deflator	79.5	97.0	146.8	153.7	159.6	168.1	174.1	182.8
GDP (current prices)	150.0	240.1	406.4	459.3	480.9	466.4	532.6	517.0
GDE	151.5	251.1	425.6	496.2	513.2	543.4	612.6	602.0
Resource Gap	- 1.5	-11.0	-22.2	-36.9	-32.3	-77.0	-80.0	-85.0
GAP/GDP %	1.0	4.6	5.5	8.0	6.7	16.5	15.0	16.4

SOURCE : GOS Sixth Development Plan & Author calculations

TABLE 8  
SENEGAL'S BALANCED PAYMENTS IN BILLIONS OF CURRENT F. CFA  
1976/1980

	1976	1977	1978	1979	1980
Current account					
total exports	122.8	163.9	90.1	133.4	116.2
1. Groundnuts	(64.3)	(79.2)	(23.5)	(41.7)	(18.0)
2. Phosphates	(16.9)	(15.0)	(14.0)	(14.7)	(17.0)
3. Fish & Fish products	(11.2)	(16.9)	(18.1)	(21.2)	(23.8)
4. Other	(30.4)	(12.8)	(34.5)	(55.8)	(57.4)
Total Imports	-157.6	-189.8	-167.9	-220.1	-219.0
1. Petroleum products	(-19.0)	(-23.4)	(-23.9)	(-29.2)	(-48.5)
2. Food	(-34.3)	(-37.6)	(-36.9)	(-37.3)	(-40.8)
3. Other	(-104.3)	(-128.8)	(-107.1)	(-153.6)	(-129.7)
Balance of Trade	- 34.8	-25.9	- 77.8	- 86.7	-102.8
Net Services	- 12.7	-17.0	- 3.0	- 24.4	- 26.1
Of which interest public debt	(-4.3)	(-4.5)	(-6.9)	(-9.5)	(-13.7)
Balance of Goods & services	-47.5	-42.9	-80.8	-111.1	-128.9
Transfers	25.4	26.4	27.2	38.7	43.5
Current Account Balance	-22.1	-16.5	-53.6	-72.4	-85.4
Capital Account					
Public Sector (net)	9.2	6.2	25.0	30.1	40.1
Public Debt Amortization	-(4.6)	-(6.5)	-(11.9)	-(19.8)	-(28.2)
Private Sector (net)	7.6	8.0	9.6	20.1	19.3
Capital Account Bal.	16.8	14.2	34.6	50.2	59.4
Overall Balance of payments a/	- 2.3	-3.2	-21.5	-24.7	-22.1

SOURCE : Lazard/Lehman/Warburg Report, BCEAO, Ministry of Economics & Finance.

a/ the difference between the overall balance of payments and the sum of the current and capital account balance is made up of SDR allocations & errors and omissions.

compensation for the fall of groundnut exports, a doubling of the petroleum import bill over the 1979/1980 period as a direct result of the disruptions in the international oil market caused by the Iranian Islamic revolution, a slow but steady increase in food imports and finally, but most importantly for the near term, a debt service burden which had taken by 1979 some significant proportions. In effect, the debt service (interest plus principal) had gone from 8.9 billion F.CFA in 1976 to 29.3 billion in 1979 and 41.9 billion in 1980.

Preliminary projections indicate a debt service of 55.5 billions F.CFA for 1981.

14. - To better illustrate the impact of these key elements on the overall balance of payments situation, they are presented as a percentage of exports on Table 9. As can be noted :

- (i) Food imports increase moderately as a percentage of exports, rise substantially and in a sustained fashion from 11.4% in 1976/1977 to the 15% area in 1978/1979 and eventually to 26.6% in 1980.
- (iii) the debt service ratio, which was a moderate factor in 1976/1977 at around 5.3% of exports, also rises significantly and in a sustained fashion to its level of 23.0% in 1980.
- (iv) the groundnuts as a percentage of exports decrease significantly from the 40% area in the 1976/1977 period to the 10-20% area in the 1979/1980 period.
- (v) Thus the ability of groundnut export earnings to cover the key imports and the debt service decreases from a high of 1.10 in 1977 to the present low of 0.14 ; in other words, in 1980 groundnut cover 14% of the foreign exchange required to pay the food and petroleum import bills and to keep the international creditors at bay.

15. - Table 10 shows the annual rate of growth of these key elements in the balance of payments and further highlights the current crisis which Senegal is presently passing through. Indeed, while food imports do not show any major changes, the rate of growth of the debt service shows significant upsurges. And in years of poor groundnut crops, the additional borrowings necessary to maintain both population sustenance through food imports and the industrial machine through petroleum imports, compound the future burden on the balance of payments by pushing upwards the debt service payments. In essence one can say that during the very poor

harvests of 1978, 1980 and 1981, Senegal has had to mortgage its future. Preliminary estimates for 1981 suggest an even worse situation for the balance of payments and a liquidity crisis for the Central Government.

16. - It is useful to add that the terms of trade were not favorable to Senegal in the period under consideration. Table 11 shows the progressive deterioration since 1974. With a more rapid rise in the volume of imports than that of exports, the effect of world inflation on the balance of payments was of major consequence.<sup>9/</sup>

E. - The External Debt

17. The external debt situation was pretty much in balance for many of the years preceeding the current period. However, with the difficulties that were presented in the previous sections, and with the urgency of financing the Vth development plan the GOS turned more and more to commercial credit. Soft loans and grants declined as a percentage of capital inflows. The net result has been a deterioration in the composition of the debt and an ever growing burden on the balance of payments. As of December 31, 1980 the external disbursed public debt amounted to 237.0 billion F.CFA with a debt service of about 42.0 billion F.CFA per annum. This latter figure represents 23% of 1980 exports of goods and services.

18. - Considering that an 18% debt service ratio is generally assumed to be an upper limit on the international ability to borrow, it seems clear that Senegal has reached a point where fiscal retrenchment has become a matter of political and economic survival. Table 12 shows the composition of disbursed public debt as of December 31, 1980, as well as the expected debt service burden projections for the period 1981/1986. Needless to say, it is important to gauge the extent towards which the present debt will mortgage future export earnings.

F. - The State Budget

19. - The Senegal state budget is a complex and difficult statement to disentangle. This is because most of the State's operations are out of three different budgets : the operating budget describing current revenues and expenditures, the special accounts at the treasury including the Caisse Autonome des Amortissements, the CPSP, etc..., and the investment budget which comprises subsidies to the parapublic sector, as well as the Ministry of Plan's investment program not financed by loans and aid. The major part of public investment is the prerogative of the Ministry of Plan, and therefore it is rather difficult, under present circumstances to obtain combined accounts for the Government as a whole.

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<sup>9/</sup> Lehman/Lazard/Warburg Report, Ministry of Economics and Finance.

TABLE 9

KEY ELEMENTS OF THE BALANCE OF PAYMENTS AS A PERCENTAGE  
OF EXPORTS OF GOODS AND SERVICES

	1976	1977	1978	1979	1980
Food Imports	20.6	18.2	24.8	19.4	22.3
Petroleum Imports	11.4	11.3	16.1	15.2	26.6
Debt Service	5.3	5.3	12.6	15.2	23.0
TOTAL %	37.3	34.8	53.5	49.8	71.9
Groundnuts	38.7	38.3	15.8	21.7	9.9
Groundnuts/Total	1.04	1.10	0.29	0.43	0.14

SOURCE : TABLE 8 AND AUTHOR CALCULATIONS

TABLE 10

ANNUAL RATES OF GROWTH IN THE KEY COMPONENTS OF  
THE BALANCE OF PAYMENTS

	1976/77	1977/78	1978/79	1979/80
Foods Imports	9.6	- 1.9	1.1	9.4
Petroleum Imports	23.1	2.1	22.2	66.1
Debt Service	23.6	70.9	55.9	43.0
Groundnuts	23.2	- 70.3	77.4	- 56.8

SOURCE : Author Calculation

TABLE 11

VARIATIONS IN THE TERMS OF TRADE : SENEGAL 1974/1980

	1974	1975	1976	1977	1978	1979	1980
Exports Prices	221	192	167	207	217	214	238
Import Prices	194	198	195	209	211	227	277
Terms of Trade	114	97	86	99	103	94	86

SOURCE : World Bank, Report p. 2869a-SE p. 50

TABLE 12

COMPOSITION OF DISBURSED EXTERNAL PUBLIC DEBT AS OF  
12/31/80 AND DEBT BURDEN 1981/1985 IN BILLIONS F.CFA

	!FOREIGN F.CFA	DEBT %	!	YEAR !	PRINCIPAL !	INTEREST !	TOTAL
Multilateral Credit	72.3	30.5		1981	26.3	15.3	41.6
Bilateral Credit	71.1	20.0		1982	22.1	12.3	34.4
Financial Institution	82.4	34.8		1983	21.9	9.9	31.8
Suppliers' Credit	11.2	4.7		1984	19.8	7.8	27.6
				1985	16.0	6.2	22.2
TOTAL	237.0	100.0					

SOURCE : Lehman/Lazard/Warburg Report ; Ministry of Economics and Finance

20. - Nevertheless an attempt will be made, on the basis of various sources, to approximate a current and an investment budget, bearing in mind that the distinction is important for both balance of payments and future planning considerations. Table 13 presents the State Budget data for Senegal for the years 1976/1977 to 1980/1981.

21. - On the basis of the above approximations the following observations are pertinent to an analysis of Senegal's ongoing economic crisis :

- (i) There is a marked deterioration in the ability of the public sector to cover its external debt commitments and to finance its public investment program ;
- (ii) Budgetary savings before debt service show a sustained decrease, as current expenditures tend to out run current revenues ; other public savings also show a negative trend as unfavorable price conditions force negative results for the CPSP to the tune of 2.0 billions F.CFA in 1979/1980 and 9.0 billions in 1980/1981 ;
- (iii) by contrast, the increasing external debt service burden places an ever constricting liquidity squeeze on Government operations, as shown by the sustained decrease in the investable surplus figure of Table 13, the latter going from a positive figure of 8.6 billions F.CFA in 1976/1977 to a deficit of 50.6 billions F.CFA in the 1980/1981 fiscal year ;
- (iv) not only does the current fiscal crisis endanger the financing of the sixth Development Plan, which envisages expenditures of about 464.0 billions F.CFA for the period 1981/1985, but it also brings into question the ability of the state to cover its routine expenditures ;
- (v) not to be forgotten is the short term nature of domestic debt which amounts to 163.0 billion F.CFA as of 12/31/80, of which 79.0 billion is due to ONCAD's liquidation.

To conclude in the words of the IBRD "The poor financial state of the public sector as a whole has had a serious impact on the economy by making the financing of public investment increasingly problematic, weakening the finances of private firms because of heavy accumulation of receivables and adding to the over-expansion and deteriorating quality of domestic credit" <sup>10/</sup>

TABLE 13

GOVERNMENT OF SENEGAL PUBLIC FINANCES IN BILLIONS  
OF F.CFA : 1976/1977 - 1980/1981

ITEMS	1976/77	1977/78	1978/79	1979/80	1980/81 <sup>b/</sup>
1. Budget Revenues	86.0	98.6	107.4	119.6	132.5
2. Current Expenditures (excl. Interest)	77.3	86.4	93.6	113.2	129.5
3. Budget Savings Before debt Service	8.7	12.2	13.8	6.4	3.0
4. Other Public Savings	8.8	-3.0	6.5	12.3	-12.0
5. Public Savings before Debt service	17.5	9.2	20.3	18.7	- 9.0
6. Debt service	8.9	11.0	18.8	29.3	41.9
7. Investable surplus <sup>a/</sup>	8.6	-1.8	1.5	-10.6	-50.9
8. Public Investments	46.0	46.0	51.0	60.0	60.0
9. Percentage of self financing	18.7%	-3.9%	2.9%	-17.7%	-84.8%
10. Debt Service % of Budget revenues	10.0%	11.2%	17.5%	24.5%	31.6%

<sup>a/</sup> does not include parapublic sector savings or budget loans and budget aid.

<sup>b/</sup> latest data from the IMF mission and the Ministry of Economics and Finance staff : estimates

SOURCE : Lazard/Lehman/Warburg, Report, World Bank Report no. p-2869a-SE, and 27 April, 1981, IMF report on the Reform Plan progress.

G. - The Initial Policy Choices ; A major source of trouble

22. - Senegal's economy by the end of 1980 was in disarray. As of November 1981 it is in an even worse situation due to the catastrophic peanut crop of 1980/1981. At the heart of the problem is a stagnating economy in spite of a substantial investment program, and in the face of a growing population. No economy can continue for very long with declining per capita incomes without eventually facing a day of reckoning. This is because it is from the fruits of economic growth that one can finance future investment and consumption expenditures. Without growth it is only possible to make ends meet by borrowing, and borrowing eventually has a limit for it essentially consists in mortgaging future export earnings and therefore future investment possibilities.

23. - At the heart of the growth equation lies agricultural production. With 70% (11/) of the active population employed in agriculture, it should be clear that only a development strategy that encourages the growth of agricultural production, can ever hope to lead to a betterment in living standards<sup>12/</sup>. With a 2.7% growth rate in the population, at least a 3.5% growth rate in agriculture is required to provide a margin of improvement in rural incomes and a possibility of capital accumulation. Within the agricultural sector the key crops are rice and millet for domestic consumption, and groundnuts and cotton as earners of foreign exchange. Groundnuts under normal conditions can provide up to 40% of foreign exchange earnings. Good rice and millet crops reduce the need for food imports and therefore indirectly reduce the pressure on the balance of payments. A more positive current account balance decreases the need for external borrowing which is used to finance the development plan and to shore up public finances. Thus it should be clear, that in Senegal's case, not only is agricultural output the centerpiece of the growth dilemma, but it is also the key to a healthy balance of payments situation.<sup>13/</sup> Suffice it to say that, ceteris paribus (i.e. no major oil price rises, no major droughts), the balance of payments issue cannot be divorced from the productivity of the agricultural sector.

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<sup>11/</sup> Ibid p. 50

<sup>12/</sup> So long as Senegal's resource base remains what it is. If tomorrow substantial oil is found, this statement would have to be modified.

<sup>13/</sup> This statement assumes a reasonable import bill and a positive import policy on the part of the GOS. It is obvious that if imports are not curtailed to some extent, improvements in exports resulting from the growth of agricultural production will have little effect on the current account balance.

24. - This question was no mystery to the authorities on the eve of independence. It was a well recognized fact that Senegal's future economic performance depended on the agricultural sector and specifically its cash crops. Yet the performance of the sector over the 1960-1980 period amounted to a mere 0.5% growth per annum in constant 1971 prices.

Over the Fifth Plan period (1977/1981) the growth rate in value added in constant 1971 prices amounted to approximately -6.0% per annum, and this in spite of substantial investments amounting to a realized figure of 44.0 billions F.CFA<sup>14/</sup>; In the Fourth Plan the growth of value added in constant 1971 prices, by contrast, was substantial at approximately 9% per annum with an investment total of 23.0 billions F.CFA<sup>15/</sup>. The major difference in the productivity of investments was due to the amount and timing of the annual rainfall. In any case the positive performance of agriculture during the period 1973/1977 only served to compensate the effects of the droughts during the years 1968-1972, so that by the end of the Fifth Plan, in spite of very large investments, agricultural value added was more or less in line with its 1968 level.

25. - This suggests that the performance of the agricultural sector was more a function of natural climatic factors, namely rainfall, than the Government's interventions as defined by its policies and its investment programs. There is no question that the productivity of investments was low and there is no question that rainfall seriously hampered the sustained growth of agricultural output. Yet the question must be asked whether in fact a different set of agricultural policies and incentives, under ceteris paribus rainfall conditions <sup>16/</sup> over the period 1960/1980, would not have had a more positive effect on the growth of real output and value added in the sector. In fact while recognizing the central role of agriculture in Senegal's growth equation, post independence policy makers failed to take into account the longer term impact on the growth of agricultural output of Senegalization and the strengthening of Government control over the economic process. They opted of a progressive bureaucratization of the economy at the expense of economic growth<sup>17/</sup>

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<sup>14/</sup> GOS, Sixth Development Plan Preliminary Vol. II p.3

<sup>15/</sup> GOS, Fifth Development Plan, pp. 89-112

<sup>16/</sup> That is the same rainfall patterns, but the nature and quality of government policies is assumed changed in the direction of greater output.

<sup>17/</sup> This is so ex post. To be fair, on an ex ante basis, the experiences with socialistically oriented economic development in the Third world were rather limited at that time. State interventions, so to say, had not been given time to prove themselves.

26. - This institutional network has increasingly been recognized as a major culprit in the low growth scenario for Senegalese agriculture. While expensive to maintain, overstaffed with poorly trained and under employed personnel, inefficient due to cumbersome administrative procedures and to the low motivations of bureaucrats, it was effective in displacing private initiatives and private entrepreneurship. The key building blocks of this institutional set up were :

- (i) The regional development agencies (RDA's) ;
- (ii) The marketing of cash crops via the parapublic sector ;
- (iii) The producer price and input subsidy system.

The objective was to use the RDA's to improve rural production conditions by disseminating to farmers "technical themes", as they were called, for a better combination of factor inputs ; to use a central marketing organisation like ONCAD in lieu of private traders who used to buy the groundnuts from the farmers for delivery to the crushing mills ; and to set guaranteed and uniform producer prices with a complex system of input subsidies. The central assumption was that the farmer needed help and it was up to the State to provide this help through its parastatals. Private initiatives, price incentives and the interplay of market forces had to be taken out of the system in the name of a more equal income distribution and to avoid profiteering and speculation by private traders.

27. - After years of experience with this system, it has become apparent that the necessary stimulation to production was not forthcoming. While the history of this poor performance, as well as its fundamental causes, have been well documented in a myriad of places, it is well worth recalling some of the basic problems associated with this agricultural strategy. In summary form these are :

- (i) The RDA's were created to help channel Government assistance to the rural areas ; in fact they have become a financial burden and their productivity is seriously in question ; large sums have been invested but the impact on agricultural production as shown in the previous sections, has been negligible ; this is principally because :

Internal Problems to the RDA's

- a) The RDA's have failed organizationally <sup>18/</sup>; the structures have not kept up with the multi-faceted responsibilities ;

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<sup>18/</sup> Elliot Berg, The present economic Crisis - An assessment AID Internal Document, June 23, 1980 p. 8

- b) RDA activities are too diverse, thus taxing technical skills and managerial talents <sup>19/</sup>;
- c) Management skills are woefully inadequate ; the personnel is plethoric and unmotivated ; remunerations are low and not aligned with individual productivity
- d) Planning is practically non existent so that future needs cannot be properly estimated ; budgeting is independent of objectives and the accounting systems rarely permit the measurement of performance ; the information required for rational decisions is usually not available and when it is, it is much too late to be of use ;
- e) Client needs and incentives are not adequately taken into account in program design ; farmers cannot count on the reliability of service ;
- f) The RDA's cost a lot; they have contributed to the development of welfare psychology ; the result is a great drain on the Government's financial resources.

#### Problems External to the RDA's

- a) The lack of planning and coordination among various government ministries has prevented the specification of clear mandates in line with the necessary financial means ;
- b) The lack of up to date information on the RDA's operations in all levels of government prevent the setting up of rational decision making procedures ; too many decisions are taken in a vacuum usually burdening the RDA's with additional responsibilities well beyond their administrative and financial capabilities.;
- c) Relations between the RDA's and the supervisory ministry - the Ministry of Rural Development - are at best un-involved ; many letters and appeals remain unanswered, many problems within the Ministry's jurisdiction are sidestepped ; in short the technical supervision function of the MRD is extremely weak ;
- d) Relations between the RDA's and the financial supervisory ministry - the Ministry of Economics and Finance - have not been more successful ; subsidies are not paid on time ; counterpart funds are not disbursed ; a great deal of energy must be spent by the RDA managers in order to obtain what was budgeted for their organization ;

- e) The Board of Directors do not fulfill their assigned roles ; members are too numerous, unprepared and unconcerned ; too often civil servants are chosen with little regard to competence or to the Board's function ; the net result is an organization which offers little help to the RDA or to the supervisory Ministries in formulating policy.
- (ii) To circumvent the supposedly parasitic activities of private traders, to prevent hoarding, speculation and profiteering, the GOS decided early on that the marketing of cash crops was to be handled by a comprehensive State controlled system : ONCAD and the Cooperative system. Without being exhaustive some of the basic failures are noted below :
- a) the cooperative system was essentially a government operation from the top rather than a participatory movement at the village level ;
  - b) the cooperatives operations were generally over extended and poorly managed, as well as indifferent to the complaints of the farmers<sup>20/</sup>.
  - c) ONCAD, whose responsibility it was to manage the cooperatives, was too centralized to be effective;
  - d) ONCAD's functions were eventually expanded to include the monopoly for transport of groundnuts, procurement and delivery of agricultural inputs and the management of seed stocks ; this made an inefficient administrative apparatus even more inefficient ;
  - e) to make matters worse, in 1971, ONCAD was given the monopoly for marketing of rice, and in 1975, for sorghum and millet, thus further burdening an operation which was not up to its already heavy obligations ;
  - f) ONCAD's operations were sloppy and ineffective with a performance which deteriorated with each added responsibility<sup>21/</sup>; inputs of seeds and fertilizers were late ; cooperative accounts were not maintained adequately ; groundnut losses occurred regularly between the time of purchase from the farmers and delivery to the mill ;

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20/ Ibid pp. 6/7

21/ Ibid pp. 6/7

- g) at the coop level the principle of collective guarantee of the debt was a major cause of dissatisfaction ;
  - h) farmers' debts were cancelled periodically thus ensuring that incentives to borrow remain high, as the optimal strategy is to have the highest possible debt when the Government decides to assume them.
- (iii) With guaranteed and uniform producer prices assured by ONCAD, the GOS added a comprehensive system of input subsidies for the purpose of helping farmers in the application of modern technology to agricultural production. Key subsidy items were fertilizers and agricultural tools. The CPSP - Caisse de Perequation et de Stabilisation des Prix - would finance the subsidies out of earnings from groundnuts sales and levies on imported rice. The basic problem associated with the above were :
- a) "financing subsidies out of earnings from groundnut sales tends to reduce producer prices, thus discouraging efforts to increase output and improve yields through more labor intensive cultivation techniques, which in the case of groundnuts, influence output more than fertilizers.<sup>22/</sup>
  - b) The system is self financing so long as the CPSP is capable of earning a surplus ; but if as in 1979/1980, when the price of groundnuts fell to US \$468 per ton, the CPSP is unable to generate a surplus, then the Government must pick up the bill.

28. - By 1980, it was increasingly clear that major reforms were needed to overhaul an essentially bankrupt system. The macro-economic figures pointed to an ever increasing external indebtedness and only a productive agricultural sector was seen to be capable of resolving the balance of payments disequilibrium and of lessening Senegal's dependence on the generosity of external donors. The Reform Plan would have to have, at its center, a structural reform of the agricultural sector in an attempt to correct the inefficiencies and disincentives to production associated with the initial policy choices made in the early years following independence and reinforced by additional measures ever since.

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<sup>22/</sup> Ibid p. 8

H. AGRICULTURAL PRICING

29. - It has been noted by many analysts, that the GOS pricing policy has contributed to the stagnation of the agricultural sector. The old regime consisted in fixing producer prices at levels well below world prices, so as to be able to subsidize sensitive food products for the urban population and certain inputs to the agricultural sector. The net result was a severe distortion of the price system intended to favor the urban consumer and the employees (indirectly) of the RDA's at the expense of the producers.

30. - Consumer prices

By 1973/1974 conscious of the increasing fiscal burden of continuing these operations the GOS began to take measures aimed at reinstating a true pricing policy ("verite des prix").

Gradually consumer subsidies were eliminated throughout the period 1974/1981 culminating in the recent 25% increase in sugar prices on August 10, 1981 <sup>23/</sup>. Table 14 shows the variations in the consumer price index of the traditional Senegalese family.

Table 14

CONSUMER PRICE INDEX - TRADITIONAL SENEGALESE FAMILY

YEAR	INDEX	% CHANGE	YEAR	INDEX	% CHANGE
1967	100.0	-	1975	201.5	30.6
1968	101.0	1.0	1976	203.8	1.1
1969	103.2	2.2	1977	226.8	11.3
1970	107.1	3.8	1978	234.6	3.4
1971	111.2	3.8	1979	257.4	9.6
1972	117.8	5.9	1980	279.7	8.7
1973	132.2	12.2	1981	294.0*	5.1
1974	154.3	16.7			

SOURCE : GOS Sixth Development Plan 1967-1975,  
Lehman/Lazard/Warburg Report 1976-1980

\* 1981 : author estimate based on trends

23/ This increase was substantial enough to cover the anticipated losses on the CPSP's sugar account.

### 31. - Producer Prices

The same break in price trends for 1973/1974 can be observed in the realm of producer prices as shown in Table 15. Thus, during the period 1973/1975 the producer price of peanuts goes from 23.0 CFAF to 41.5 CFAF per kilogram, the price of cotton from 31.0 CFAF to 47.0 CFAF per kilogram, the price of millet from 17.5 CFAF to 30.0 CFAF and the price of rice (paddy) from 21.0 CFAF to 41.5 CFAF per kilogram. These increases reflected the GOS willingness to encourage production, after the six year drought, in an attempt to restore the agricultural sector to a semblance of normalcy.

However, following the sharp increases in producer prices in the mid-seventies, they have remained fairly constant since then, reflecting a lack of encouragement on the part of the GOS for agricultural producers. Thus, the past drought associated gains in rural incomes were seen to be fritted away over the 1975/1980 period as inflation turned the rural-urban terms of trade against the producers. It wasn't until the enactment of the GOS Reform Plan in late 1980 that the Government became aware again of the necessity of encouraging production. This awareness was translated into action in 1981 as shown in Table 15, with a 40% increase in producer prices for peanuts, a 13.4% for cotton, a 25% for millet and a 24.1% increases for rice (paddy).

### 32. - Terms of Trade

Urban rural terms of trade as measured by the ratio of the consumer price index of Table 14 and the producer price indices of Table 15, are shown in Table 16 for the four different crops. In this case the producer price index indicates the variations in the purchasing power of a kilogram of peanuts, millet, cotton and rice at the farm-gate level. The CPI on the other hand, represents the cost of a basket of goods purchased, on the average, by a Senegalese family in Dakar <sup>24/</sup>. Thus, the ratios (CPI/Producer Price in each year) shown in Table 16 can be interpreted as the ability of the farmer, in terms of the purchasing power of a unit of his output and not of his rural income, to purchase urban goods. The lower the ratio the greater the price incentives to produce and conversely. From the data of Table 16 several observations of importance follow :

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24/ The articles included in the CPI are basically local products: 71 in food stuffs or 56.0%; 22 in clothing or 11.9%, 17 in housing or 16.2%; 14 in household goods or 4.0% and 27 in transport, leisure and sundry or 11.9%. There are 151 items in all.

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TABLE 15

PRICE DATA FOR PEANUTS, COTTON, MILLET AND RICE 1967/1981 IN CURRENT CFAF PER KG

YEAR												
	PRICE	INDEX	% CHANGE									
1967/68	18.0	100.0	-	28.0	100.0	-	20.0	100.0	-	21.0	100.0	-
1968/69	18.0	100.0	-	28.0	100.0	-	20.0	100.0	-	21.0	100.0	-
1969/70	18.5	102.8	2.8	28.0	100.0	-	20.0	100.0	-	21.0	100.0	-
1970/71	19.5	108.3	5.4	30.0	107.1	7.1	17.0	85.0	- 15.0	21.0	100.0	-
1971/72	23.1	128.3	18.5	30.0	107.1	-	17.0	85.0	-	21.0	100.0	-
1972/73	23.0	127.8	-0.4	31.0	110.7	3.4	17.5	87.5	2.9	21.0	100.0	-
1973/74	29.5	163.9	28.2	34.0	121.4	9.7	25.0	125.0	42.9	23.0	109.5	9.5
1974/75	41.5	230.6	40.7	47.0	167.9	38.3	30.0	150.0	20.0	41.0	195.2	78.3
1975/76	41.5	230.6	-	47.0	167.9	-	30.0	150.0	-	41.5	197.6	1.2
1976/77	41.5	230.6	-	49.0	175.0	4.2	35.0	175.0	16.7	41.5	197.6	-
1977/78	41.5	230.6	-	49.0	175.0	-	35.0	175.0	-	41.5	197.6	-
1978/79	41.5	230.6	-	49.0	175.0	-	40.0	200.0	14.3	41.5	197.6	-
1979/80	45.5	252.8	9.6	55.0	196.4	12.2	40.0	200.0	-	41.5	197.6	-
1980/81	50.0	277.8	9.9	60.0	214.2	9.1	40.0	200.0	-	41.5	197.6	-
1981/82	70.0	388.9	40.0	68.0	242.9	13.4	50.0	250.0	25.0	51.5	245.2	24.1

SOURCE : GOS Sixth Development Plan and calculations by the author

TABLE 16

PROXIES FOR URBAN RURAL TERMS OF TRADE AS MEASURED BY THE RATIO OF  
THE CPI TO PRODUCER PRICE INDICES : SENEGAL 1967-1981

YEAR	CPI/PEANUTS	CPI/MILLET	CPI/COTTON	CPI/RICE
1967	100.0	100.0	100.0	100.0
1968	101.0	101.0	101.0	101.0
1969	100.4	103.2	103.2	103.2
1970	98.9	126.0	100.0	107.1
1971	86.7	130.8	103.8	111.2
1972	92.2	134.6	106.4	117.8
1973	80.7	105.8	108.9	120.7
1974	66.9	102.9	91.9	79.0
1975	87.4	134.3	120.0	102.0
1976	88.4	116.5	116.4	103.1
1977	98.4	129.6	129.6	114.8
1978	101.7	117.3	134.1	118.7
1979	101.8	128.7	131.0	130.3
1980	100.7	139.9	130.6	141.5
1981	75.6	117.6	121.0	119.9

SOURCE : COMPUTATION BY THE AUTHOR

TABLE 17

COMPARISON OF WORLD PRICE INDICES WITH SENEGALESE  
PRODUCER PRICE INDICES : GROUNDNUTS, COTTON, RICE

YEAR	F/CFA PER US DOLLARS	GROUNDNUT OIL			COTTON			RICE		
		PRICE	INDEX	PRODU CER INDEX	PRICE	INDEX	PRODU CER INDEX	PRICE	INDEX	PRODU CER INDEX
		\$	CFA	INDEX	\$	CFA	INDEX	\$	CFA	INDEX
1975	214.3	657	100.0	100.0	123	100.0	100.0	383	100.0	100.0
1976	239.0	741	125.8	100.0	175	158.6	104.2	235	74.2	100.0
1977	245.7	852	148.7	100.0	163	151.9	104.2	272	81.4	100.0
1978	225.6	1079	172.9	100.0	161	137.8	104.2	368	101.1	100.0
1979	212.7	888	134.2	109.6	171	137.9	116.9	331	85.7	100.0
1980	207.1	859	126.4	120.5	207	162.6	127.6	434	109.4	100.0
1981	275.0	1108	216.4	168.6	215	224.3	144.7	493	165.1	124.1

SOURCE : Commodity Price Forecasts, IBRD Nov. 12, 1980; The World Bank Report No. P-2869q-SE p. 52; all figures for 1981 are rough estimates; Peanut oil is in \$/MT, cotton in cents/kg, rice in \$/MT.

- (i) GOS pricing policies seem to have three distinct phases over the period 1967/1980. The first -1967/1972- consists in the strict application of the old regime, producer prices well below world prices whereby the differential allows consumer necessities to be subsidized as well as certain agricultural inputs and certain operations of the RDA's. The second phase -1973/1974- coincides with the GOS's attempts to stimulate agricultural production, following the drought years, by altering the terms of trade in favor of farmers. Thus in 1974, peanut prices rise by 40.7%, cotton by 38.3%, millet by 20% and rice by 78.3%. And finally the third phase -1975/1980- whereby the GOS begins to dismantle the old pricing regime by progressively eliminating consumer subsidies. However, in this phase, there is a corresponding reluctance to change producer prices, such that the relative gains of the farmers in the years 1973/1974, are progressively eroded away.
- (ii) The present phase 1981-onwards reflects, one again, the GOS's concern with stimulating agricultural production. On April 7, 1981, an interministerial council raised the price of peanuts by 40%, cotton by 13.4%, millet by 25.0% and rice by 24.1%.
- (iii) In terms of purchasing power peanut farmers seem to be better placed than their millet, cotton, and rice counterparts. The number of price changes in peanuts and cotton over the period suggest a greater concern on the part of the GOS with its cash crops, and understandably so given the importance of the latter for the performance of the national accounts, the balance of payments and the state budget. Moreover, a comparison of the total price increase for the various crops over the period 1967/1981 tends to confirm the above, with a four-fold increase in peanuts as compared to an approximately 2.5 fold increase for cotton, millet and rice.

33. - World Price Trends

Of course, it must be remembered that producer price increases are limited by the differentials existing between domestic and world prices. The GOS producer price policy of the latter period, 1975/80 must be gauged in the light of these world market conditions, before it can be concluded that there existed a margin of action which was not used. Table 17 indicates the variations in world prices of groundnut oil, cotton and rice adjusted for exchange rates. These are then compared to the producer price indices of Table 15 adjusted for a 1975 base year. The data suggest the following observations :

- (i) In the case of groundnut oil, world prices moved favorably from 1975 to 1978 while exchange rates fluctuated. Producer prices for groundnuts remained constant during this period suggesting that the GOS was content in the face of the good crops of 75/76 and 76/77 to reap the profits of the price differential. It was only as a result of the bad crop years 1979/1980 and 1980/1981 that producer prices began to catch up with world prices which by this time were in a downward trend, exacerbated in Senegal by a revaluating CFAF, and that the GOS finally began to come to terms with the importance of producer price incentives. The 40% price increase in April 1981 was fortunate to be accompanied by a de facto devaluation of the CFAF vis a vis the U.S. dollar, a stabilizing world price for groundnut oil and a prospective bumper harvest for 1981/82. The accounts of the CPSP which were on balance positive in groundnuts from 1975/1976 to 1979/1980 are projected to be in slight deficit for the 1981/1982 crop by the IMF <sup>25/</sup>, confirming the GOS's determination to apply a producer price compatible with world price trends on the one hand, while on the other, taking into account farmers' incentives.
- (ii) In the case of cotton, world prices adjusted for exchange rate fluctuations have moved more erratically and the CPSP has had a negative account on cotton ever since the record crop of 45,200 tons in the 1976/1977 campaign. Given the negative "perequation" on cotton, it was natural for the GOS to move carefully in the direction of producer price incentives. This attitude is reflected in the moderate price increases noted from 1979/1980 onwards as world cotton prices and exchange rates began to move more favorably thereby allowing the GOS a certain margin of action.
- (iii) The case of rice is entirely different as domestically produced rice is more costly than imported rice and the CPSP has until recently counted on the imported rice "perequation" to balance its accounts. Thus the world price index shows a declining trend through the 1978/1979 harvest and then reverses itself as shown in Table 17. The reversal, although favorable for domestic producers, had negative repercussions on the CPSP accounts, as the rice subsidies for consumers took on significant proportions.

Nevertheless the GOS only moved to increase producer rice (paddy) prices for the 1981/1982 campaign and this by 24.1%. This increase seems well within the allowable margins as shown by the World Price Index CFAF equivalent of 165.1 versus a producer index of 124.1 in Table 17. The reluctance to raise producer prices is more a function of the GOS policy towards rice consumers, than an unwillingness to follow world price trends.

On balance then, it seems that over the period 1975/1980 the GOS was more concerned with the situation of consumers than agricultural producers. Indeed producer prices lagged significantly behind world price trends as defined in Table 17 by the CFAF indices. Thus the GOS had a margin of action which was not used and it opted for a continuation, albeit modified, of the old regime. Moreover there was no stated producer price policy and the pricing decisions were taken annually in response to current situations rather than in line with a plan of action designed to stimulate agricultural output.

#### 34. - Relative Prices

Given that millet and groundnut together account for approximately 76% of value added in agriculture <sup>26/</sup>, it is important to assess the impact of the relative prices - groundnuts/millet- on respective areas planted and total outputs. On an a priori basis one would expect a price tilt in favor of groundnuts to encourage substitution of millet planting by groundnuts. In this sense, given the fixed amounts of arable land available for both groundnuts and millet at around 2.2 to 2.5 millions hectares <sup>27/</sup>, changes in the ratios of planted areas would indicate the existence of a substitution effect. Such a substitution effect would be of major importance in both the short term and the long term, as it implies a trade off between earnings of foreign exchange in the present and food self sufficiency in the future.

By contrast, the groundnut/cotton substitution effect is of minor importance at the macro economic level, because cotton only represents a planted area of 38 000 to 40 000 hectares. It is however important for cotton production and the longer term goals of crop diversification. Nevertheless it will not be dealt with here because of its relatively insignificant impact on the macro-economic scenario.

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<sup>26/</sup> GOS Sixth Development Plan op. cit. vol II p. 7

<sup>27/</sup> See Table 18. It is assumed that yields are a function of rainfall and technology rather than prices. The heavy correlation between yields and the rainfall index for both groundnuts and millet tend to corroborate this assumption.

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TABLE 18

RELATIVE PRICES OF GROUNDNUT/MILLET AND BASIC PRODUCTION DATA

YEAR	GROUNDNUTS			MILLET			RAINFALL INDEX 1961-60=100	RELATIVE PRICES GROUNDNUTS/ MILLET	RELATIVE PRICE INDEX	TOTAL AREA PLANTED
	Output 000MT	Yield kg/ha	Area 000ha	Output 000MT	Yield kg/ha	Area 000/ha				
67/68	1005	863	1164	655	567	1155	100	0.90	100.0	2319
68/69	830	697	1191	450	427	1054	55	0.90	100.0	2245
69/70	789	628	953	635	602	1054	110	0.93	103.3	2007
70/71	583	556	1049	402	418	960	73	1.15	127.8	2009
71/72	989	933	1060	583	598	975	90	1.36	151.1	2035
72/73	570	532	1071	323	345	936	55	1.31	145.5	2007
73/74	675	658	1026	609	557	1094	57	1.18	131.1	2120
74/75	994	853	1152	703	609	1154	80	1.33	153.3	2306
75/76	1412	1174	1203	621	645	963	80	1.38	153.3	2166
76/77	1209	898	1346	507	535	948	65	1.18	131.1	2294
77/78	512	466	1113	421	446	943	50	1.18	131.1	2056
78/79	1053	910	1157	802	776	1035	90	1.04	115.6	2132
79/80	737	623	1035	496	520	955	75	1.14	126.7	1990
80/81	486	491	1079	531	510	1084	55	1.25	138.9	2163
81/82	800	763	1048	750	750	1000	-	1.40	155.6	2043

SOURCE : Axel Magnuson Memo of 3/11/81, Lazard/Lehman/Warburg report, author calculations.

Table 18 presents the basic data on groundnut and millet production including yields, acreage and rainfall, as they relate to the relative price index calculated in the before last column. An examination of the data reveals that :

- (i) regardless of the relative price structure of groundnuts to millet the total area planted is always in the range of 2.0 to 2.3 million hectares and the split millet/groundnut acreage does not vary significantly from the 50% figure ;
- (ii) yields and outputs are correlated significantly with the rainfall index and not with the relative price index ;
- (iii) the substitution effect in relationship to changes in relative prices seems to be insignificant over the period 1967/1981.

There seems to be three major reasons for this apparent lack of a substitution effect. In the first place millet is a prime element of the farmer's diet, it is 90% autoconsumed ; and in the second place it is not at present a marketable crop. Furthermore millet stocks are maintained at the farmer level and contribute to his sense of food security. Depleted millet stocks will engender millet production regardless of prices, and thus having experienced a series of cyclical droughts over the last 14 years, the farmer has repeatedly seen his security food stocks rise and fall, thus contributing to a certain sense of insecurity. The natural reaction has been to favor up to a point millet production (i.e. food) over groundnuts, (i.e. cash crop) regardless of price differentials as a means to ensure the survival of the family. Climatic insecurity has emphasized risk aversion, and therefore food before cash <sup>28/</sup>. This is reflected in the constancy of millet acreage over the period 1967/1981 in the face of the relative price changes noted in Table 18.

The implication for GOS pricing policies are important. So long as the drought cycle remains what it is, the millet/groundnut acreage split will tend to remain unchanged regardless of changes in relative prices. If on the other hand groundnut prices rise significantly relative to millet, it may encourage farmers to substitute leisure time for groundnut production on otherwise fallow lands. Through an increase of acreage under production the output of groundnuts may rise. However, if the rainfall patterns stabilize and the food security

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<sup>28/</sup> The inability of the farmer to rely on the RDA's for the on time delivery of inputs, the quality of seeds and the proper weighting of groundnuts have also contributed to this risk aversion behavior.

TABLE 18

RELATIVE PRICES OF GROUNDNUT/MILLET AND BASIC PRODUCTION DATA

YEAR	GROUNDNUTS			MILLET			RAINFALL INDEX 1931-60=100	RELATIVE PRICES GROUNDNUTS/ MILLET	RELATIVE PRICE INDEX	TOTAL AREA PLANTED
	Output 000MT	Yield kg/ha	Area 000ha	Output 000MT	Yield kg/ha	Area 000/ha				
1967/68	1005	863	1164	655	567	1155	100	0.90	100.0	2319
1968/69	830	697	1191	450	427	1054	55	0.90	100.0	2245
1969/70	789	828	953	635	602	1054	110	0.93	103.3	2007
1970/71	583	556	1049	402	418	960	73	1.15	127.8	2009
1971/72	989	933	1060	583	598	975	90	1.36	151.1	2035
1972/73	570	532	1071	323	345	936	55	1.31	145.5	2007
1973/74	675	658	1026	609	557	1094	57	1.18	131.1	2120
1974/75	994	853	1152	703	609	1154	80	1.38	153.3	2306
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1976/77	1209	898	1346	507	535	948	65	1.18	131.1	2294
1977/78	519	466	1113	421	446	943	50	1.18	131.1	2056
1978/79	1053	910	1157	802	776	1035	90	1.04	115.6	2192
1979/80	737	628	1035	496	520	955	75	1.14	126.7	1990
1980/81	486	491	1079	531	510	1084	55	1.25	138.9	2163
1981/82	800	763	1048	750	750	1000	-	1.40	155.6	2048

SOURCE : Axel Magnuson Memo of 3/11/81, Lazard/Lehman/Warburg report, author calculations.

question lessens in importance, the whole issue of substitution may become important, especially if marketing channels for millet are progressively implanted.

35. - Price Liberalization

It was noted at the beginning of section H, that the GOS began to introduce price liberalization measures in 1973/1974. What does price liberalization essentially mean in the context of Senegal? Does it imply allowing prices to be guided by market forces without government interference? Or does it mean, that prices will be set on a more rational basis taking into account the longer term development strategy?

In the present context of Senegal and as spelled out in the Reform Plan, it would seem that the true pricing policy ("verite des prix") means a progressive withdrawal of price controls and subsidies from the consumer goods sector, except for certain basic necessities, such as bread, rice, sugar and groundnut. The latter would then fall into a category of goods where prices will be fixed in theory at more rational levels (i.e. lower losses for the CPSP). Producer prices for groundnuts, rice, cotton, and millet will also be in the same category where rationality implies greater incentives for producers.

It is thus necessary to distinguish these two facets of pricing policy, one implying no government control and the other a more rational government control.

36. - The Caisse de Perequation et Stabilisation des Prix (CPSP)

There are two organizations, other than the RDA's which are active in the GOS's agricultural pricing policies. These are :

- (i) The "Comite des Grands Produits Agricoles" (CGPA) whose function it is to annually review the producer prices for the major crops : groundnuts, cotton, rice (paddy) millet, corn, niebe, etc..., and then to recommend changes to the council of Ministers presided by the Prime Minister. It is an interministerial advisory committee composed of representatives from the relevant ministries, the CPSP, the RDA's and the BNDS (Banque Nationale pour le Developpement du Senegal). Given the importance of these prices for the Senegalese economy, it is only appropriate that these decisions should be taken at the highest levels.

(ii) The "Caisse de Perequation et de Stabilisation des Prix" (CPSP) was created in 1973 with the principal function of stabilizing both farmgate and selected consumer goods prices. It is basically an instrument of price control designed to harmonize positive and negative fiscal flows arising from price differentials. It operates in 3 areas:

- a) Guaranteed producer prices
- b) Guaranteed consumer prices
- c) Subsidized agricultural input prices.

Essentially, the CPSP's *modus operandi* is to take charge of the difference between the buying and selling <sup>29/</sup> price of the commodities to be controlled. If the buy price is higher than the sell price, the transaction is recorded as a loss on the CPSP accounts. Conversely if the buy price is lower, then the differential is noted as a profit on those same accounts. It is assumed that, on average over crops in any particular year and over time, the accounts will balance. <sup>30/</sup>

Table 19 shows the performance of the CPSP accounts over the period 1976 to 1980 with preliminary estimates for the years 1981 and 1982. While the accounts were balanced in the early period, the CPSP suffered a loss of 9.1 billions CFAF in 1980, and is projected to suffer even larger losses in 1981 and 1982. The major reasons for this reversal are the poor groundnut harvest of 1978/1980 and 1980/1981, the decrease in the international price of groundnut oil from its 1978 high and the sudden increase in the world price of rice, all contributing to eliminate CPSP receipts while expenditures continued to climb.

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<sup>29/</sup> Selling prices are fixed by the GOS in the domestic market or depend on world prices for export products. Buying prices for local products are equal to the sum of producer prices, transformation costs and marketing costs ; for imported goods, they are simply the import prices plus the marketing costs.

<sup>30/</sup> For a detailed analysis of CPSP operations, see: SERA-SONED "Modelisation des Prix Agricoles", Ministere du Developpement Rural, Nov. 1979, pp. 113-181

TABLE 19

OPERATIONS OF THE CPSP 1976/1982 IN BILLIONS  
OF CFAF

ITEMS	1976	1977	1978	1979	1980 <sup>a</sup>	1981 <sup>b</sup>	1982 <sup>b</sup>
<b>Receipts</b>							
1. Exports Crops	<u>3.4</u>	<u>15.8</u>	<u>5.2</u>	<u>9.3</u>	-	<u>0.2</u>	-
Groundnuts	<u>3.4</u>	<u>14.6</u>	<u>5.2</u>	<u>9.3</u>	-	<u>0.2</u>	-
Cotton	-	1.2	-	-	-	-	-
2. Consumption goods	<u>7.7</u>	<u>4.9</u>	<u>6.4</u>	<u>6.8</u>	<u>3.1</u>	-	-
Groundnut oil	-	-	-	-	<u>0.2</u>	-	-
Rice	5.3	3.9	3.4	5.6	2.7	-	-
Sugar	2.4	1.0	2.2	1.0	-	-	-
Flour	-	-	0.8	0.2	0.2	-	-
3. Interest & Dividends	-	-	<u>1.1</u>	-	<u>0.1</u>	-	-
4. Taxes & Levies	-	-	<u>1.3</u>	<u>0.6</u>	<u>0.7</u>	<u>0.3</u>	<u>0.3</u>
<b>TOTAL RECEIPTS</b>	11.1	20.7	14.0	16.7	3.9	0.5	0.3
<b>Expenditures</b>							
1. Administrative	<u>0.1</u>	<u>0.1</u>	<u>1.0</u>	<u>0.2</u>	<u>0.2</u>	<u>0.5</u>	<u>0.5</u>
2. Ag. Program (Fertilizers)	<u>5.9</u>	<u>9.6</u>	<u>3.9</u>	<u>5.6</u>	<u>5.9</u>	<u>4.5</u>	<u>3.2</u>
3. Export Crops	-	-	<u>0.8</u>	<u>0.8</u>	<u>3.4</u>	<u>1.0</u>	<u>2.0</u>
Groundnuts	-	-	-	-	2.5	-	1.8
Cotton	-	-	0.8	0.8	0.9	1.0	1.2
4. Consumption goods	3.2	2.0	5.0	4.6	3.5	8.8	6.4
Groundnut oil	0.4	1.6	4.7	3.9	0.8	1.5	1.2
Rice	0.2	0.1	0.1	-	-	4.3	4.7
Sugar	-	-	0.1	-	2.2	2.5	-
Wheat Flour	2.5	0.1	-	-	-	0.4	0.4
Millet & Flour	-	-	-	0.6	0.4	0.1	0.1
Tomatoes	0.1	0.2	-	0.1	0.1	-	-
5. Other expenses	-	<u>2.0</u>	<u>5.5</u>	<u>1.7</u>	<u>0.1</u>	-	-
<b>TOTAL EXPENDITURES</b>	9.2	13.7	16.2	12.9	13.0	14.8	13.1
<b>NET PROFIT OR LOSS</b>	1.9	7.0	-2.2	3.8	-9.1	-14.3	-12.8

SOURCE : IMF Report May 9, 1980 and IMF Stand By Agreement Aug. 28, 1981

a. Preliminary results

b. Projections taking into account the 25% increase in sugar prices effective 8/10/81 and the expected increase in the price of fertilizer.

Faced with this deteriorating situation, the GOS in line with its policy of "verite des prix", that is the progressive elimination of consumer subsidies and the giving of necessary producer price incentives to farmers, began to attack its major sources of loss. In 1980 the price of bread went up by 60%, the price of sugar by 15% and the retail price of groundnut oil by 20% thereby eliminating most of the subsidies on that commodity <sup>31/</sup>. Thus by the end of 1980, only three thorny subsidy problems remained : sugar, fertilizers and rice. These would obviously have to be tackled in the Reform Plan.

What is clear is that the GOS pricing policy as practiced through the CGPA and the CPSP requires careful monitoring of world price trends, transformation costs and raw materials in Senegal and marketing costs of various locally produced and imported products, so as to avoid being caught in a price scissors. A great deal of skill, talent and experience is required to administer such a program which is at best a rather risky balancing act. (i.e. for the accounts of the CPSP)

Moreover the importance of certain decisions with respect to consumer prices on necessities -sugar, rice, bread and groundnut oil- cannot be minimized as they are fraught with political risks. The so called "rice riots" of 1981 in many African countries can attest to the verity of this proposition. Add to this the proposition that producer prices can be raised easily and lowered with great difficulty, as well as the converse for consumer prices and it becomes also clear that any government working with such a system is bound to be very conservative in its pricing policy. It is not what one would call a flexible system, if only because commodity prices are so hard to predict over the short, medium and long term and because the fiscal burdens of faulty decisions and erroneous policies can be so weighty. In sum it is doubtful that the GOS does have the skills and administrative talent to effectively manage this cumbersome and risky pricing system. Having opted for it, the GOS must either manage it better or change the system towards price liberalization.

G. - THE NEED FOR CHANGE

37. - The overall case for reform in Senegal is an inescapable conclusion. Economic growth has been slow

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<sup>31/</sup> This subsidy amounted to 4.7 billions CFAF in 1978 and 3.9 billions CFAF in 1980. See IMF Report. Recent Economic Developments, May 9, 1980, p. 14

an erratic. GDP per capita has declined on a sustained basis. The balance of payments are in disarray. The state finances are in chronic deficit. The parapublic sector is a drain on government resources. The agricultural sector has stagnated as both the RDA's and ONCAD failed in their assigned missions. GOS pricing policies, designed initially to subsidize urban consumers by paying producer prices well below world prices, has run into a scissors crisis. The CPSP accounts are depleted. The external debt has risen to 46% of GDP and the debt service ratio to 23% by the end of 1980. And to compound the situation the GOS faced a poor 1980/1981 harvest prospect. It was clear that the GOS needed to break with the past and to radically alter the course of the economic ship of state. It began to do so in December 1979 with the launching of the Economic and Financial Recovery Program and formalized its intentions in a declaration of policy on October 31, 1980. The need for change had become a political reality.

### III. - THE GOS REFORM PLAN

38. - On October 31, 1980, the then Prime Minister of Senegal, Abdou DIOUF, in a letter to the then World Bank President, Robert S. McNAMARA, spelled out Senegal's Reform Plan in some detail. Rather than consisting of patch up measures designed to address certain specific situations, the Plan committed the GOS to a coordinated and comprehensive program of structural adjustments. The Plan was well received by the donor community and on this basis the IBRD granted Senegal a Structural Adjustment Loan (SAL) on November 26, 1980 which was to be disbursed in two tranches : a first tranche of \$ 40 millions to be available immediately ; and a second tranche of \$ 20 million to be made available in 1981 and subject to the satisfactory progress of the Reform Plan.

The SAL was intended to supplement the August 8, 1980 IMF approved request for assistance in the amount of SDR 184.8 million to support a three year economic program intended to correct the disequilibrium in the public finances and the balance of payments, while orienting public investments towards productive sectors.<sup>32/</sup> and it was expected that other bilateral donors would contribute to the Reform Plan in the necessary amounts, once the serious intentions of the GOS were put in evidence by concrete actions.

### 39. - Broad Objectives of the Reform Plan

The overall objectives of the Reform Plan were to :

- (i) Stabilize the economy 1980-1981, with primary emphasis on reducing the gap in the balance of payments ;

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<sup>32/</sup> The World Bank, Report No.2869a-SE, opcit. p.67

- (ii) Stimulate economic growth 1982-1985 to the tune of a 4% annual rate of growth of GDP in real terms, by emphasizing the growth of output, specifically agricultural output.

#### 40. Program of the Reform Plan

To achieve these objectives the GOS envisaged the following program :

- (i) The improved management of the public finances, the parapublic sector and the external debt, and in the level of government savings, so as to ensure the implementation of an adequate public investment program without compromising Senegal's credit-worthiness ;
- (ii) The introduction of a restrictive and selective credit policy ;
- (iii) The introduction of a new foreign trade policy ;
- (iv) More systematic reliance on market mechanisms and economic incentives to encourage private investment and guide national production in the desired direction.
- (v) A reorientation of the national investment program towards the most productive sectors and projects with the highest economic return ;
- (vi) Institutional reforms in the rural sector.<sup>33/</sup>

#### 41. Macro-Economic Targets of the Reform Plan

The quantified targets at the aggregate level and spelled out clearly in the Reform Plan were :

- reduction of the current account deficit from 15.6 percent of GDP in 1980 to 6-7 percent in the medium term and of the overall budget deficit from CFAF 11.5 billion in 1979/1980 to a surplus of CFAF 4 billion by 1980/1981 ;
- generation of (net) public savings through the budget equivalent to 15 percent of public investment in 1981 and to 25 percent in 1985 ;
- an overall rate of investment of 16 percent in 1981 rising to 18 percent in 1985 (including an average of 10 percent of GDP for the public sector).
- credit expansion slightly below 8 percent in 1980 ;

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<sup>33/</sup> Ibid. pp. 67-68

- <sup>a</sup> containment of inflation at a rate below 10 percent on average (as in recent years) ;
  - an average growth rate of 4 percent of GDP in the last two years of the program and thereafter (i.e. about 1.3 percent above population growth).
42. - Reform Plan : Public Finances
- (i) During 1980-1983, the rate of growth of current government expenditures will be below that of government revenues ;
  - (ii) The share of outlays on personnel (57% of 1980/1981 budget) will be progressively reduced ;
  - (iii) Expenditures for supplies will remain constant in real terms ;
  - (iv) Liquidation of the 12 billion CFAF arrears to the private sector by June 1981 ;
  - (v) Achieve the goal of public sector savings after debt service equal to 15% of public investments planned for 1980/1981 ; the ratio is to climb to 25% by 1984/1985 ;
  - (vi) Progressive disengagement from the parapublic sector and a reduction of the role of public enterprises in the economy ; "contract-plans" and "ordres de mission" will be the instruments whereby the GOS specifies objectives, targets and the financial means to be allocated.
43. - Reform Plan : Balance of Payments
- (i) Reduction in the current account balance of payments deficit to 6-7% of GDP in normal years (no droughts, no excessive oil price rises) ;
  - (ii) Import growth not to exceed the growth of GDP in current prices ;
  - (iii) From September 1980 onwards customs duty on all imports were raised to 15% except for seeds and a small number of other products ;
  - (iv) Stimulation of exports through a successful agricultural policy designed to stimulate the output of groundnuts cereals and cotton and through the development of non-traditional exports ;
  - (v) From september 1980 onwards, an export subsidy of 10% of the FOB value of textiles, footwear, fertilizers, agricultural equipment and canned fish products.

44. - Reform Plan : The External Debt

- (i) The debt service should not on average exceed 15% of earnings from exports of goods and services ;
- (ii) Within this framework, borrowings with a maturity of 1-12 years will not exceed 16 billion CFAF in fiscal 1981/1982 ; borrowing with a maturity of 1-5 years not to exceed 2 billion CFAF in fiscal 1981/1982.
- (iii) Limit borrowing of a commercial nature to directly productive projects ; through contract-plans the GOS will limit the borrowings of the parapublic sector.

45. - Reform Plan : The Agricultural Sector

The GOS policy in the rural sector was and remains in the Reform Plan as follows :

- (i) Development of food crops with a view to gradually increasing the percentage of domestic production to meet Senegal's basic food needs ;
- (ii) Stepping up and diversifying agricultural production while increasing the value of agricultural exports by further processing, thus deriving the maximum possible benefit from the comparative advantages offered by the sector ;
- (iii) Encouraging farmers to accept more responsibility by providing them with extension services and training in cooperative organization, so as to enhance their capability to manage their own affairs; and consequently
- (iv) Increasing the incomes of farm families and improving the quality of life in the countryside ;

The basis of the reform, however, can be summarized as follows :

- (i) A marketing and producer price policy designed to promote production of foodstuffs and agricultural exports ;
- (ii) A reorganization of the national agencies and regional societies for rural development with a view to decentralizing their management, reducing their cost of operation, and increasing their efficiency ;
- (iii) A reorganization of the distribution of seeds and other inputs and an overhaul of input prices ;

- (iv) Rectification of the member accounts of cooperatives and a restructuring of the agricultural credit terms and conditions with the collaboration of Banque Nationale de Developpement du Senegal (BNDS).
- (v) Reorganization and improvement of the procedures for collecting and weighing groundnut crops, now entrusted to cooperatives and oil mills ;
- (vi) Encouragement of private initiative in the marketing field ;
- (vii) Creation and development of village sections within the cooperatives ;
- (viii) Orientation of agricultural research on global farming systems in conjunction with the development agencies.

46. - Reform Plan : Consumer Pricing Policy

- (i) Continuation of the implementation of the GOS policy begun in 1975 of a progressive application of "true economic prices " (i.e. verite des prix) ;
- (ii) Only four sensitive food products-rice, bread, sugar and groundnut oil- will remain under a fixed price regime determined by the GOS ; all other consumer prices will follow "homologation", monitored reporting or be totally uncontrolled as of the end of 1980 ;
- (iii) In 1980, the GOS raised the price of bread by 60% the price of sugar by 15% and the price of groundnut oil by 20% and will continue to set these prices in line with a minimization of subsidies ;
- (iv) The only subsidies retained will be on fertilizers pending further study ;
- (v) The GOS will strive, through a careful and continuing study of world and domestic price trends, to avoid excessive fluctuations in the accounts of the CPSP, and in the prices of basic necessities.

47. - Reform Plan : Agricultural Producer Prices

- (i) Producer prices for groundnuts and cotton will continue to be fixed each year before the end of April, at the highest possible level compatible with anticipated export prices and intermediate costs of transformation and marketing ;

- (ii) Producer prices for groundnuts and cotton will also take into account the relative price structures with other agricultural products such as millet, rice, corn, etc... ; the aim is to set producer prices which will stimulate output ;
- (iii) GOS pricing policies for cereals (in particular millet) will be formulated in harmony with the long term goal of food self-sufficiency ;
- (iv) The GOS will study the possibilities of creating a nationwide cereals market ;
- (v) The GOS will limit its interventions in the millet market to stock-piling and minimizing seasonal fluctuations in food supply ;
- (vi) The GOS is studying, and will continue to study through the SONED model, an optimal agricultural pricing strategy ;
- (vii) The GOS will reduce the costs of the RDA's who are responsible for supplying inputs and for assisting in the marketing of agricultural products ;
- (viii) The GOS will undertake a study of the financial management of the CPSP ; the CPSP will have to finance the remaining subsidies out of its own receipts ; the SPSP will participate in the price fixing decisions on consumer and producer goods that fall within the controlled price regime.<sup>34/</sup>

IV. - THE GOS REFORM PLAN 1980/1981 : PROGRESS TO DATE

48. - Donors, including the United States, believed the GOS Reform Plan to be a well conceived, comprehensive and coherent plan of action to address both the short term and the long term needs of Senegal's economy. Major support had been provided to Senegal to implement this Plan. In mid -1980 the IMF provided SDR 184.8 million ( 243 million) under an extended facility over a three-year period and the World Bank provided a structural adjustment loan and credit package of  60 million. These two packages were provided through joint discussions with Senegalese authorities and were linked to performance on the Plan de Redressement. In addition to the above package, the French provided exceptional assistance in 1980 of  155 million which includes  26 million of advance on STABEX allocations. Concessionary and non-concessionary loans from the Caisse Centrale de Coopration Economique (CCCE) amounted, in the same year, to  50 million.

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<sup>34/</sup> Most of section III is based on Prime Minister Abdou DIOUF's now President, October 31, 1980 declaration of Senegal's economic policy as noted in the SAL document : pp. 67-81

49. - The execution of the Plan de Redressement got underway by mid-1980 with considerable vigor. Subsidies on all urban consumer goods were abolished in principle causing rises in bread, sugar and peanut oil prices. Rice prices, by contrast, were left untouched.

A 250 gram loaf of bread went from 43 FCFA to 70 FCFA. Farm gate prices of peanuts and cotton were increased in 1980 from 45.5 CFA/kg for peanuts and 50 CFA to 60 CFA for first quality cotton. Two major parastatals (SONAFOR and ONCAD) were abolished owing to mismanagement and inefficiency. Import duties were increased from an average of 10% to a new average of 15%. Export subsidies of 10% were granted on selected non-traditional exports. Government's budgetary expenditures were reduced by the halving of the size of the official motor pool, the closing of 26 consulates and embassies overseas and reducing the budget on all government services. Directorship of all RDA's were changed, replacing less effective leaders with administrators who are reputed to be strong managers. A moratorium of five years on farm debt was decreed and the beginning of a systematic audit of cooperatives was started to place future transactions on a sound basis. Subsidies on all farm inputs were removed except for fertilizer. Trade in food grain and farm inputs was liberalized through the use of private traders for cattle supplies and in marketing of millet, rice and transport of peanuts .<sup>35/</sup>

50. - While progress seemed substantial by the end of 1980, the first half of 1981 proved that the Reform Plan, as envisaged by the GOS and the donor community, was too optimistic. The easy measures were implemented first but when it was necessary to make difficult political choices, the GOS dragged its feet. Moreover, the extent of structural reforms demanded by the IMF/IBRD (extended fund facility (FFF) and the structural adjustment loan (SAL) requirements) went far beyond the capabilities of the bureaucratic machine to implement. To compound things the drought of 80/81 slashed the peanut crop to a new low and exacerbated the GOS's fiscal and balance of payments position. The IMF clearly recognized in its renegotiated stand-by agreement of September 1981, that its initial expectations were well beyond the capacity of the GOS. It also acknowledged that the most important condition for success did exist -the political will on the part of the GOS to adopt structural reforms- and that, therefore, all hope was not lost.

51. - The IMF Mission of April 1981, furthermore, noted that certain of the macro-economic targets stated in the Reform Plan were not about to be reached. Most specifically :

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35/ AGENCY for International Development, Country Development Strategy Statement : FY 83, January 1981, pp. 14-16

- (i) The Reform Plan targeted a reduction of the deficit in the current account of the balance of payments from 15% of GDP to 6-7% by 1982 ; the Mission was forecasting a deficit equivalent to 19% of GDP in 1982 ;
- (ii) The Reform Plan targeted a surplus of 4.0 billions CFAF in the State budget for 1980/1981 and of 14.0 billions for 1981/1982 ; as of April, 1981, the mission was forecasting not a reduction, but an increase in the state budget deficit (before debt amortization and Sixth Plan financing) of 23.5 billions CFAF in 1980/1981 and an even worse situation of 37.5 billions CFAF in 1981/1982 ; preliminary forecasts suggested that the GOS would require an external financing of 83.6 billions CFAF (\$ 298 million) just to get by the 1981/1982 fiscal year, if <sup>36/</sup> additional fiscal measures were to be adopted.
- (iii) The Reform Plan targeted the generation of net public savings through the budget equivalent to 15% of public investment in 1981 and rising to 25% in 1985 ; the IMF mission noted that for fiscal 1981/1982 not only would there be no public savings whatsoever, but that the GOS would have to look outside of Senegal to finance all its investments, the totality of the debt service and part of its current expenditures, a situation which was judged correctly as untenable ;
- (iv) The Reform Plan targeted a growth rate of GDP in real terms equivalent to 8% in 1981, on the assumption of a recovery from the poor harvest of 1979/1980 and of 4% per annum thereafter for the Sixth Plan period, <sup>37/</sup> On the basis of the preliminary estimates of the 1980/1981 harvests the IMF mission thought the growth rate of GDP would be negative in 1981 ; with the harvest results at 486 000 tons of groundnuts confirmed by summer 1981, the estimate of GDP growth is put at -8.2% <sup>38/</sup>; the Sixth Plan growth rate was seen to be highly dependent on the performance of the agricultural sector and therefore difficult to predict with accuracy.

## 52. - Modifications of the Reform Plan

By April-May of 1981 it had become clear that the Reform Plan, as initially enunciated in late 1979 and implemented in 1980, would not be up to the task of redressing Senegal's economic situation. The macro-economic forecasts predicted a grim situation as a result of (1) two consecutively mediocre harvests, especially those of groundnuts and (2) a

<sup>36/</sup> IMF Mission Note Preliminaire de la Mission du Fond a l'Intention de Monsieur le Ministre des Finances, April 27, 1981.

<sup>37/</sup> These are the projections of the World Bank contained in the SAL document, op. cit. p. 50

<sup>38/</sup> Calculations by the author.

deep structural disequilibrium in the functioning of the economy. The intention of the Reform Plan was to attack the latter while hoping that climate and nature would look favorably on the former. As this was not to be, failure on the weather front only served to highlight the extent of the structural malaise, and the slow pace of implementation of the Reform Plan.

Faced with this unexpected deterioration of the economic situation, the IMF mission recommended the scrapping of the three year EFF program negotiated in August 1980. The World Bank undertook not to disburse the SAL second tranche of \$ 20 millions. The April-May IMF mission however, made certain suggestions for reinforcing the by-now slowly moving Reform Plan, suggestions that, if approved by the GOS could lead to negotiations for a stand-by agreement. Success on the Stand By could then be followed by a conversion to a three year program of assistance covering the period 1982/1984.

The bases for the "Redressement" of the "Programme de Redressement" as suggested by the IMF were :

(i) The need for more modest expectations

In April 1981, the IMF mission finally recognized that any progress to be made towards achieving the structural changes prescribed in the Reform Plan would be long in coming and would require a great deal of patience on the part of the donors.

In the medium term aspirations needed to be modest with the primary goal for the fiscal year 1981/1982 being to prevent the further degradation of an already serious situation, and for the next two years the establishment of a foundation from which to launch a normalization program.

Thus, the initial two year program of stabilization followed by a three year growth program as prescribed in the initial Reform Plan, was to be changed to:  
1981-1982 : Prevention of the Degradation of the Fiscal Situation ;

1982-1985 : Stabilization in the Fiscal and Balance of Payments Situations ;

It was obviously optimistic on the part of all concerned to think initially that a two year stabilization program could be effective after such a long period of stagnation. Indeed, it would have been more realistic to conceive of a plan with the stabilization program taking from 1981 to 1986, and the sustained economic growth program from 1987 to the year 2000.

The Senegalese and the Donors were at last ready to incorporate in the Reform Plan the notion that stabilization would be painfully slow, and that it could only be followed by economic growth once certain requirements had been fulfilled.

(ii) Realignment of the Public Finances

The IMF mission saw as absolutely necessary the paring down of current expenditures and the implementation of measures to stimulate receipts. To do this, they suggested the following :

- a) Wages and salaries comprise 75% of the GOS current expenditures ; under such circumstances only a strict control of personnel will be effective in reducing expenditures ;
- b) To do this it will be necessary to set up a special committee-Census of Personnel- to be attached to the Prime Minister's Office for the purpose of programming personnel requirements, budgeting for the personnel in place and evaluating the measures contemplated to reduce expenditures ;
- c) With import taxes accounting for 40% of GOS revenues, and with their recent hikes another increase may be counter productive. However, the IMF mission suggested greater efforts on the collection of income taxes, prolonging the solidarity tax until February 1982 and selective increases in the TVA and the TPS. These measures might increase receipts by 6 billion FCFA for 1981/1982 and another 6 billion could be obtained with a 20% increase in the price of gasoline ;
- d) The deficits of the CPSP, due to a policy of consumer subsidies, penalize the state public finances. The low price of rice encourages higher consumption as well as leakages to neighboring countries. The GOS should realign the accounts of the CPSP towards equilibrium ;
- e) With respect to the parapublic sector, the IMF mission insisted on the necessity of improving accounting procedures and in ensuring their preparations with precision and rapidity. The contract-plans process was seen as beneficial and an acceleration was suggested to the GOS.

(iii) Public Investments

The Sixth Plan, elaborated almost a year ago, predicted that 29% of the investments would be financed by domestic savings. As of April 1981 this seemed already an impossibility. OMVS investments furthermore, had

not been included in the Plan. In these circumstances the IMF mission recognized that it was too late to do much about the Sixth Plan document, but that it was feasible and desirable to set up a commission in the Ministry of Plan to identify, for fiscal 1981/1982, a basket of projects with very high priority. The latter could then be financed first, and the remainder would depend on the availability of funds. Moreover it was suggested that recurrent costs should be seriously estimated and budgeted as they normally are not funded by the donors.

(iv) Balance of Payments

The reduction of the deficit in the current account of the balance of payments is probably the most difficult problem to resolve. Predictions for 1981 suggest that exports will only cover 50% of imports and that the deficit will be equal to 1.9% of GDP. Debt service will amount to approximately 29% of exports of goods and services.

The Reform Plan prescribed an increase in the price of imported goods and a decrease, via subsidies, in the price of exported goods. This policy must be pursued vigorously but will not by itself lead to any short terms solutions. For fiscal 1981/1982 only a rescheduling of the external debt can alleviate the situation substantially by reducing the annual debt service in the medium term by 15 billions CFAF.

(v) Wages and Prices

In this area, the IMF suggested the following measures :

- a) wages should not increase by more than the real growth rate of GDP, which in fact implies a loss of purchasing power ;
- b) the price control mechanism needs to be simplified . Among other things, it acts as a disincentive to the private sector ;
- c) the GOS policy of subsidizing urban consumers at the expense of rural procedures should be abandoned completely.

53. - Conditions for the stand-by agreement

The IMF mission concluded that if a similarity of views with the GOS could be ascertained in the near future, the Fund would be prepared to send a negotiation mission for a stand-by agreement at the first appropriate opportunity. On the basis of their suggestions they projected that the

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83.6 billion CFAF deficit in the GOS finances for 1981/1982 could be reduced to 40.0 billion CFAF, but that the latter would still need to be financed externally.

54. - Following the mission of the IMF, negotiations with the GOS led to the signing of a stand-by agreement in September 1981 amounting to SDR 63 million (\$ 82 millions) for use in FY 1981/1982. A request for compensatory financing of SDR 42 million (\$ 55 million) was also subsequently approved.

To redress the situation and to show its willingness to implement the now modified Reform Plan, the GOS had already moved on certain measures :

- (i) at the interministerial meeting of April 7, 1981 agricultural producer prices were raised across the board: groundnuts from 50 CFAF/kg to 70 CFAF/kg; cotton (1st choice) from 60 CFAF/kg to 68 CFAF/kg ; millet from 40 CFAF/kg to 50 CFAF/kg ; and rice from 41.5 CFAF/kg to 51.5 CFAF/kg ; the percentage increase in the price of groundnuts clearly indicated a desire on the part of the GOS to stimulate its major cash crop in the hope of easing its balance of payments deficits ;
- (ii) in the fiscal and balance of payments area ; the VAT (reduced rate) went from 5% to 7% ; the ordinary VAT from 18.5% to 20% ; the TDP from 15% to 17% ; the price of petroleum products went up by 11%, that of electricity by 6% and those of public transports by 7% ; gasoline excise tax rose by CFAF 35 per liter ;
- (iii) in the area of consumer prices, sugar was raised by 25% effective August 10, 1981 ;
- (iv) moreover contract-plans approached their final stages as contracts for SONATRA, SAED and SODEFITEX were signed in August 1981, and the SODEVA contract seemed to be in its final negotiation stage. With assistance from the French, the GOS had also reorganized the groundnut seed distribution system to assure the delivery of good quality groundnut seeds to farmers before the planting season. The government had also taken the first steps in reorganizing rural credit by systematically auditing Cooperatives to reach agreement with each farmer on his debt obligations. In addition, the new farm prices for groundnuts included increases in the amount retained for debt reimbursement and arrangements, had been made for the processing plants to help in repaying this debt.

55. - The Stand-By agreement itself contained a set of GOS promises which were crucial to the entente. These were :
- (i) strict control of the public wage bill through a special unit in the PM's office ;
  - (ii) improve the tax base and tax collection without changing legislation ;
  - (iii) balance of the account of the CPSP by reducing the subsidies on fertilizers and raising the consumer price of rice ; the GOS has also agreed to an audit of the CPSP following which quarterly ceilings on the global deficit will be established for 1982 ;
  - (iv) assessing development projects more carefully and including rate of return calculations ;
  - (v) establishment of a high level committee chaired by the Minister of Economics and Finance for the purpose of establishing consolidated accounts for the GOS ;
  - (vi) rescheduling of the public external debt after approval of the program by the IMF and presentation at the Paris Club meeting on October 12-13, 1981 ; limit further external borrowing ;
  - (vii) progressive repayment of ONCAD's debt to the banking system. <sup>39/</sup>

56. - Armed with the IMF Stand-By agreement of September 1981 and with an optimistic prospect on receiving the second tranche of the SAL by December 1981, if all goes well with the IMF evaluation mission, the GOS agreed to meet all the donors at the meeting of the Paris Club. The purpose was to seek a much needed breathing space in the form of a rescheduling of Senegal's external public debt for FY 1981/1982. It was thought that, the debt relief in combination with the IMF/IBRD assistance, as well as aid from bilateral donors, would be sufficient to stabilize Senegal's financial situation until the end of the next fiscal year.

In fact, the results of the Paris Club meeting were successful. Senegal was able to convince the donors that its intentions for reform were real and that progress was just around the corner. Other than GOS political will, which was present, it was only necessary for the proper rainfall to help the prospective harvest.

Therefore, Senegalese officials presented the Paris Club members with a financing shortfall of CFAF 83.6 billion (\$298 millions) for FY 1981/1982 (July 1, 1981 to June 30, 1982). During subsequent discussion this figure was reduced

<sup>39/</sup> IMF, Request for STand-By Arrangement, Aug. 28 1981. Most of the material presented in this paper on the IMF mission can be found in the stand-by document.

to \$269 million, and was agreed upon by the Paris Club members. This amount is to be financed by IMF drawings of \$127 millions (the result of a one-year stand-by agreement signed in September of this year and a compensatory financing) ; Paris Club debt relief of \$76 millions ; and \$66 millions, to be covered by other measures, such as private debt re-scheduling and extraordinary aid. The GOS has already expressed its intention to seek private debt rescheduling later this year at an as-yet unscheduled meeting of the Club of London. While Senegal has the support of France in this effort, private debt rescheduling is not a foregone conclusion.

France has been the only major donor to offer extraordinary aid to date : a combination of grants and deferred debt amounting to \$ 50 million dollars. USAID hopes to be able to provide \$ 10 million in FY 82 as well. The GOS is also counting on substantial aid from Saudi Arabia, which could be as much as \$ 50 million. The Paris Club meeting had indeed been a success for Senegal, as it renewed donor confidence in the ability and willingness of the GOS to go ahead with its stated Reform Plan , no matter what the difficulties. The future, however, would be a function of performance, a performance to be reviewed by a special IMF mission in December 1981. The importance of this review cannot be underestimated, as it will undoubtedly influence the behavior of all the donors who have more or less accepted the IMF leadership in this area of macro-policy reform. In sum the GOS demonstrated its dedication to the Reform Plan; it was able to point to certain areas of significant progress and it was willing to promise future gains towards the envisioned structural readjustments.

V. - FUTURE PROSPECTS : THE PROBLEM AREAS

57. - At the time of writing, it seems clear that the GOS has demonstrated its willingness to implement the modified Reform Plan, as stated in the SAL report and the IMF Stand-By agreement. There are therefore two questions of importance to be dealt with in evaluating the future prospects of Senegal. These are : (1) will the GOS be able to fully implement its Reform Plan and (2) will the Reform Plan, as stated and approved by the GOS and the donor community actually work to redress the Senegalese situation... As the latter question is somewhat dependent on the former, we will deal with the major obstacles to the full implementation of the Reform Plan, in the first instance ; and in the second instance, the chances of economic stabilization and growth, which is the major goal of the Reform Plan, will be evaluated.

58. - Potential obstacles to the Reform Plan

There are several kinds of obstacles that may impinge negatively on the implementation of the Reform Plan. For the sake of clarity, they have been classified as follows :

conceptual, political, institutional, financial, technical, exogenous, slippage. While the list is by no means exhaustive, it does contain the major items which could blurr future prospects,

59. - Conceptual

A conceptual weakness of the original Reform Plan somewhat carried over in the modified Reform Plan (as a result of the Stand-By), is the time horizon for the two broad objectives : stabilization and economic growth. Originally optimistic, the time horizon for the stabilization programs remains so.<sup>40/</sup> Given the depth of the economic difficulties now facing Senegal, both the Senegalese authorities and the donor community should place the proper time horizons on the reform effort. With the weather being what it is, it is not possible to count on several good crops in succession, and therefore the Reform Plan must take this very real problem into account. The whole Reform effort in Senegal should now (as of end 1981) consist of a long term plan to the year 2000 divided into two phases :

- a) Stabilization 1982/1988 to redress the fiscal and balance of payments disequilibria
- b) Sustained growth 1989/2000 to provide a reversal in the so far negative growth of GDP per capita.

60. - Political

Two of the most difficult obstacles to the successful implementation of the reform plan are political in nature. They are both extremely sensitive questions which in a country with a steadily decreasing GDP per capita, can readily lead to the birth of revolutionary expectations.

The first has to do with the promise of the GOS to raise the consumer price of rice. At the present price of 80 CFAF per kg, rice represents a major source of loss to the CPSP in the amount of 4 to 5 billions CFAF for 1981 and 1982 based on present world price trends. The GOS has promised to eventually raise the price of rice, but it is obviously afraid of the popular discontent that such a measure would generate. It has been willing to raise prices of sugar and petroleum products, impose import duties, increase the price of fertilizers but not to tamper with the price of rice. From a cursory examination of the data in Table 19, it is obvious that raising the price of rice, as well as eliminating subsidies on fertilizers, are key actions in the attempt to redress the public finances

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<sup>40/</sup> In the original Reform Plan stabilization was to be over the period 1980-81. In the revised version, stabilization covers 1982-84 on a 3 year program.

The so-called "rice riots" of Liberia, Guinea Bissau and Morocco in 1981 have not added any comfort to the GOS as it attempts to deal with this politically sensitive issue.

The second obstacle has to do again with the public finances and concerns the paring down of personnel costs in the state budget's current expenditures component. Given that 57% of the latter represent personnel cost, it is clear that a strict control of new hires, an enforcement of rules and regulations to fire offenders, a lowering of contractual personnel, a decrease in the parapublic sector work force and a wage policy designed to bring down real wages are the necessary components of the reform plan. Current expenditures must be controlled at all cost. But, from an administrative point of view, it is most difficult to discharge public sector employees, even if they are on contract. From a social point of view, it is most difficult to refuse to help secure public employment for friends, relatives, friends of friends, needy individuals, etc... With the State as a prime employer, there are enormous and decentralized pressures to swell the GOS's personnel rolls. It will take particular courage to reduce the GOS's current personnel expenditures, or at best to maintain them within the targeted 3% allowable increase.

Thirdly, one should add, as a political footnote, that the GOS has not campaigned politically for its reform plan. There has been no GOS advertising campaign on the need for austerity and on the necessity of increasing productivity at all levels of Senegalese society. The upcoming presidential election of 1983 may be the root cause of this unwillingness to publicize a bad situation. Yet this unwillingness to publicize austerity in return for better days ahead may be counter productive on the economic front, and could backfire politically if the harvests do not back up the Reform Plan. It may be naive and a potentially serious obstacle to the successful implementation of the Reform Plan, not to prepare opinion for the austerity ahead.

#### 61. - Institutional

On the institutional front the Reform Plan requires the full mobilization of the bureaucratic machine. It also requires the right leadership in the right places at the right time. On both these fronts, there are major obstacles to the Reform Plan. To begin with the bureaucratic apparatus is highly lethargic and the State organization functions more on the energies of their leadership than on the contributions of their cadres. In each ministry, public enterprise, or government agency, the bulk of the work is done by a small group of individuals centered around the leadership of the organization. The mass of the employees do not contribute significantly to the effort at hand. Thus the quality and amount of information needed for key decisions is seldom available in the necessary format or at the right time.

The implementation of a Reform Plan requires the serious efforts of a motivated bureaucracy, at all levels - a sense of business not as usual, an emergency-. This lack of an emergency atmosphere is a major bottleneck to be overcome.

Moreover, while the GOS has made some progress in the choice of the right leaders (e.g. replacing the Directors of the RDA's with qualified managers, SAED and SODEVA being prime examples), it has not moved far enough, probably so as not to imbalance the 1983 election applectart, to provide the necessary support on the managerial front for the Reform effort.

62. - Financial

In the financial areas, other than a lack of funds, the GOS faces major obstacles to its Reform Plan. The liquidity crisis of 1981/1982 has placed in doubt the ability of the GOS to finance its Sixth Development Plan which forecasted a real rate of growth of 3.5% per annum. This in itself was a minimum to redress a declining situation. At this point, the Sixth Plan is in serious financial difficulty and was pared down to a core of essential and directly productive projects at the Paris Donor's meeting in October 1981. The inability to implement the Plan will undoubtedly favor stabilization in the FY 1981/1982 but at the expense of medium and long term growth. And it must be remembered that lack of growth will not contribute to a solution of Senegal's situation. For the Reform Plan to succeed the core projects need to be financed even if it means financing the counterpart funds and some recurrent costs during, and only during, the stabilization period.

The second major financial obstacle has to do with the GOS's formidable external and domestic debt. While the former was partially solved at the Paris Club meeting, the latter, mostly the result of ONCAD's 80 billion CFAF debt to the banking system remains a major source of liquidity squeeze.

63. - Technical

The GOS while pursuing a policy of "verite des prix", is nevertheless even in the Reform Plan, accepting the necessity of fixing the prices of agricultural crops and certain basic consumer goods. The surplus and deficits on these accounts are then transited through the accounts of the CPSP. To be questioned here is the technical ability of the price control organization (i.e. CGPA and CPSP) to recommend correct prices in line with the GOS Reform Policies and which will not overshoot world prices. One would have to consider that in any country it would be difficult to predict future prices for world commodities

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and then set producer and consumer prices so as to avoid losses for the CPSP, or its equivalent. The uncertainties vis a vis world prices of groundnut oil, rice, cotton, oil, etc... are much too great, and the probability of setting the wrong prices within the Senegalese institutional context must be quite high. Small mistakes in conjunction with bad harvests could seriously set back the stabilization program.

In the same vein, another obstacle in the technical area has to do with the ability of the planning institutions to choose the right projects. With a scarcity of investment funds, particular care must be placed on project selection so that they are compatible with the Reform Plan and with a minimum acceptable rate of return.

64. - Exogenous

Exogenous factors must be mentioned as potential obstacles to the implementation of the Reform Plan. They are well outside the control of the GOS or the donor community, but remain crucial parameters in the equation. Of note we have weather (more specifically amount and pattern of the annual rainfall, good in 1981 -1982), oil prices and the world price trends for groundnuts, cotton, groundnut oil and rice. These are the major determinants of the balance of payments.

65. - Slippage

The Reform Plan has been conceived in close cooperation between the GOS and the donor community, especially the IMF/IBRD teams who have taken the lead in promoting the specific measures intended to redress the situation. To a great extent, Senegal has been forced to accept donor terms and conditions or face bankruptcy in the international arena and political unrest at home. The sticky question of the price of rice is a sobering reminder of the politico-economic conflict now facing the GOS. The donors have requirements and Senegal must live up to them in order to receive assistance. It would be unfortunate if Senegal received assistance, from say Saudi Arabia, outside the confines of the expenditure ceilings on the Reform Plan. Such a slippage would prevent or at least delay the difficult decisions that must be taken and weaken the resolve of the donor community to aid Senegal in this worst of its financial crises. This point is only mentioned as a potential obstacle to a successful implementation of the Reform Plan, so that donors such as AID will watch against such possible harmful developments.

66. - The list of potential obstacles to the Reform Plan cited above, are the probable major sources of trouble in the areas of balance of payments, budgetary dislocations and agricultural pricing. The future prospects of the Reform Plan in general, and in the areas of balance of payments and

agricultural pricing in particular, will to a large extent depend on the ability of the GOS to overcome these obstacles and convince the donor community of its serious intentions. The recently concluded Stand-By, the successful meeting of the Paris Club and of the joint donor conference on the Sixth Plan would suggest a high level of optimism. The December 1981 mission by the IMF/IBRD will undoubtedly shed more light on the progress of these reforms. It is clear however that the GOS will have to show its seriousness on the questions of the price of rice and the cutting back of personnel expenditures. Movement in these two areas, which should be forthcoming, will allow the Reform Plan to move forward with full donor backing. Already the GOS has agreed to the reorganization and audit of the CPSP and it would not be surprising if the price of rice were raised within the foreseeable future.

67. - While it is beginning to look as if the GOS will try to fully implement the policy reforms, it is by no means clear that these reforms will be enough to achieve the stated objectives of stabilization in the medium term and economic growth, based on a resurgence of the agricultural sector in the long term. Only time will tell what additional measures will be necessary. Careful monitoring of developments will be essential to both the implementation of the Reform Plan and the design and definition of additional measures which may be necessary to augment the chances of success. Of one thing we can be sure, nothing will help as much as a series of good groundnut harvests in succession.

#### VI. - BALANCE OF PAYMENTS AND STATE BUDGET FORECASTS

68. - Forecasting balance of payments and state public finances is useful in pointing out quantitatively the impact of reform policies on the national aggregates. Although its accuracy is only as good as its assumptions on the exogenous variables, the forecasts do give a range of possible future scenarios and will be useful in evaluating the impact of the non-project assistance component of AID assistance. In the ideal situation, it would have been preferable to make projections on all the major aggregate variables on two different assumptions : (1) without a Reform Plan, simply trend lines, and (2) taken into account the full impact of the Reform Plan. This would then permit a better quantitative assessment of the Reform Plan. Unfortunately the time for this exercise was not available and it was decided to concentrate on the key questions at hand, namely the balance of payments and the state finances.

69. - Balance of Payments

An optimistic scenario for the balance of payments in Senegal for the period 1981-1985 is presented in Table 20, taking into account the measures of the Reform Plan:

TABLE 20  
OPTIMISTIC SCENARIO 1981/1985 : BALANCE OF PAYMENTS PROJECTIONS  
IN CFAF BILLIONS

TOTAL EXPORTS	1981	1982	1983	1984	1985
TOTAL EXPORTS	104.9	146.1	168.8	196.0	228.6
1. Groundnuts	( 5.2)	( 40.5)	( 48.6)	( 58.3)	( 70.0)
2. Phosphates	( 19.5)	( 21.8)	( 24.7)	( 28.0)	( 31.9)
3. Fish & Fish prod.	( 26.9)	( 30.1)	( 34.2)	( 39.2)	( 44.8)
4. Other	( 53.3)	( 53.7)	( 61.3)	( 70.5)	( 81.9)
TOTAL IMPORTS	217.0	228.0	241.4	258.1	287.2
1. Petroleum	( 48.5)	( 48.5)	( 48.5)	( 50.9)	( 53.5)
2. Food	( 44.1)	( 46.3)	( 48.6)	( 51.0)	( 53.6)
3. Other	(124.4)	( 133.2)	(144.3)	(156.2)	(169.0)
BALANCE OF TRADE	-112.1	- 81.9	- 72.6	- 62.1	- 47.5
Net Services	- 35.4	- 36.8	- 40.2	- 44.5	- 49.8
of which : Interest	-(21.2)	-(24.2)	-(25.2)	-	-
Debt					
Transfers	43.0	26.0	33.8	26.5	39.2
Current account					
Balance	-104.5	- 92.7	- 79.0	- 70.1	- 58.1

The following sources of data and key assumptions are listed below :

- a) The 1981 and 1982 data are based on the IMF projections in the Sept. 1981 Stand-By agreement, p. 13
- b) The fish, phosphate and other export projections are based on IBRD data in the SAL document, p. 52.
- c) Groundnut exports are based on a harvest of 800000 tons in 1981/1982 and a 20% growth rate per annum for 1983-1985. This is an optimistic assumption.
- d) Total imports from 1982 onwards are assumed to grow at 8% per annum which should be at or below the upper limit specified in the Reform Plan. This upper limit was to be no more than the rate of growth of GDP in current prices.
- e) Petroleum imports are likely to remain stable through FY 1983 because of a rise in domestic prices and the world glut. From 1983 to 1985 they are assumed to rise at 5% per annum.
- f) To reflect the constraint in the Reform Plan on food imports, the latter is assumed to grow by 10% in 1981 and by 5% per annum thereafter.

On these optimistic assumptions the deficit in the current account is seen to decrease by 50% over the stabilization period, from 104.5 billion CFAF in 1981 to 58.1 billion CFAF in 1985. This compares unfavorably with the 22.1 billion CFAF current account deficit observed in 1976. Thus even with some serious efforts, a stringent application of the Reform Plan, some consistent harvests and some realistic assumptions on the growth of other exports, the balance of payments disequilibrium remains a major problem for the Senegalese economy.

Table 21 indicates a more pessimistic scenario for the balance of payments on the following changes in the key assumptions

- a) groundnut exports are based on a harvest of 800 000 tons in 1981/1982 but the resulting years have alternate good and bad harvests reflecting the patterns of 1978/1982.
- b) petroleum imports are assumed to rise at 10% per year from 1982 onwards reflecting a rise in international prices.

- c) With the bad harvest, food imports rise by 10% per annum instead of the previous 5%.
- d) Finally the interest on the debt rises somewhat reflecting increased borrowings.

As shown in the pessimistic projections, not only does the balance of payments not improve over the period, but it fluctuates and winds up with an even greater deficit by 1985. Much of these fluctuations are directly dependent on the groundnut harvest and the ability of Senegal to obtain a good export price. Other key factors in the scenario are the price of imported oil, the food import bill, the price of phosphate exports, the ability of Senegal to promote its fish and fish product exports and finally the interest payments on the external public debt.

The actual performance of Senegal's balance of payments is likely to fall between the limits represented by the optimistic scenario of Table 20 and the pessimistic scenario of Table 21, barring major changes in the key assumptions (e.g. a groundnut harvest of 1,500,000 tons in 1982/1983).

Suffice it to say that even on the optimistic assumptions, the current account deficit will remain a problem well into the late 1980's, unless measures more stringent than those implied in the Reform Plan are applied as early as possible. Persistent deficits tend to increase the external public debt which in turn place a burden on future balance of payments. This vicious circle progressively worsens the situation and it seems clear, from this vantage point in time, that Senegal will have to take more serious measures to eventually correct the situation.

70. - For the sake of illustration, an average scenario is presented in Table 22, in terms of the current account deficit. It is these results which will be used in the impact evaluation of AID/Senegal's non project assistance program as they best represent the most probable scenario.

71. - It seems also useful to mention as a footnote that the impact of the Sixth Development Plan on the balance of payments has not been discussed in the original Reform Plan or in the modified version. With a total investment program of 464 billion of CFAF for the period 1981/1982 to 1984/1985 it seems bound to add significantly to the import bill, as many of the inputs to projects whether material or human, are imported. Thus, the Plan has certain definite implications in terms of imports of goods and services for the Reform Plan and its balance of payments projections. This is all the more so since it now looks as if 100% of the Plan will have to be externally financed through the donor community, with each bilateral donor tying his assistance to imports from his country of origin.

TABLE 21

PESSIMISTIC SCENARIO 1981/1985 : BALANCE OF PAYMENTS PROJECTIONS  
CFAF BILLIONS

	1981	1982	1983	1984	1985
TOTAL EXPORTS	104.9	146.1	140.6	178.2	179.
1. Groundnuts	( 5.2)	( 04.5)	( 20.4)	( 40.5)	( 20.4)
2. Phosphates	( 19.5)	( 21.8)	( 24.7)	( 28.0)	( 31.4)
3. Fish & Fish prod.	( 26.9)	( 30.1)	( 34.2)	( 39.2)	( 44.8)
4. Other	( 53.3)	( 53.7)	( 61.3)	( 70.5)	( 81.9)
TOTAL IMPORTS	217.0	228.0	248.6	270.9	295.2
1. Petroleum	( 48.5)	( 48.5)	( 53.4)	( 58.7)	( 64.6)
2. Food	( 44.1)	( 46.3)	( 50.9)	( 56.0)	( 61.6)
3. Other	(124.4)	(133.2)	(144.3)	(156.2)	(169.0)
BALANCE OF TRADE	-112.1	- 81.9	-108.0	- 92.7	-116.2
Net Services of which : Interest Debt	- 53.4 -(21.2)	- 36.8 -(24.2)	- 40.2 -(25.5)	- 46.5	- 54.0
Transfers	43.0	26.0	33.8	26.5	39.2
Current Account Balance	-104.5	- 92.7	-114.4	-102.7	-131.0

TABLE 22

AVERAGE SCENARIO FOR SENEGAL'S BALANCE OF PAYMENTS  
PROJECTIONS - 1981/1985 IN CFAF BILLIONS

YEAR	CURRENT ACCOUNT BALANCE			AVERAGE SCENARIO <sup>a</sup> ( $\text{F}$ Millions)
	PESSIMISTIC	OPTIMISTIC	AVERAGE	
1981	- 104.5	- 104.5	- 104.5	- 380.0
1982	- 92.7	- 92.7	- 92.7	- 337.1
1983	- 114.4	- 79.0	- 96.7	- 351.6
1984	- 102.7	- 70.1	- 86.4	- 314.2
1985	- 131.0	- 58.1	- 94.6	- 344.0

(a)  $\text{F}$  1 = 275 F/CFA

TABLE 23

OPTIMISTIC PROJECTIONS FOR SENEGAL'S STATE FINANCES 1981/1985  
IN CFAF BILLIONS

ITEMS	1981/82	1982/83	1983/84	1984/85
1. Budget Revenues	144.5	158.9	174.8	172.3
2. Current Exp. (Excl. Interest)	146.5	153.8	161.5	169.5
	- 2.0	5.1	13.3	22.8
3. Budget Sav. Before Debt Service	- 2.0	5.1	13.3	22.8
4. Other Public Savings	- 13.0	-	3.0	4.0
5. Public Savings before Debt Service	- 15.0	5.1	16.3	26.8
6. Debt Service	23.0	30.0	37.0	40.0
7. Investable Surplus	- 38.0	-24.9	-20.7	-13.2
8. Public Investments (6th Plan)	70.0	70.0	70.0	70.0
9. % Self Financing	-	-	-	-
10. Debt Service % of Budget Revenues	15.9 %	18.9 %	21.2 %	20.8 %

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Quantification of this impact is the responsibility of the Ministry of Plan <sup>41/</sup> and should be taken into account by the leading multi-lateral donors, the IMF/IBRD in their possible future modifications of the Reform Plan. A certain amount of harmonization between the Sixth Plan and the Reform Plan appear to be a prime requirement for the successful implementation of both. In this particular case it would have been important to assess the Plan's impact on the Reform Plan balance of payments objectives.

72. - In concluding this section, one must mention that, while the projections on the average suggest the use of more stringent measures in order to achieve Reform Plan overall targets of a current account deficit at 6-7% of currency GDP by 1985, the projections of Tables 20, 21 and 22 respectively imply a deficit/GDP ratio of 7% for the optimistic scenario, 16.1% for the pessimistic scenario and 11.5% for the average. <sup>42/</sup> Thus, in the most optimistic case, requiring substantial climatic help the possibility of matching Reform Plan targets does exist.

73. - State Budget

The optimistic scenario for the State Budget for the period 1981-1985 is presented in Table 23 according to the same format as the data of Table 13. The major sources of information and assumptions are noted below:

- a) budget revenues in accordance with Reform Plan measures are assumed to increase at 10% per annum through 1984/1985.
- b) Budget expenditures, where wages and salaries do not increase by more than 3% and material purchases are frozen, are assumed to have an upper limit of 5% per annum growth rate.
- c) The accounts of the CPSP tend to balance out in 1982/1983 on the assumption of a 25% increase in the price of rice and a halving of the subsidies on fertilizers. The measures already adopted by September 1981 are included in the calculations.

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<sup>41/</sup> Computation of this impact is a tedious task requiring a project by project review of the impact component of each project. The summation over projects represent the import impact on the balance of payments.

<sup>42/</sup> For these calculations current prices GDP, which stood at 517.0 million CFAF in 1980, is assumed to grow at 10% per annum which is a conservative assumption, incorporating about 3% real growth and 7% inflation.

For the year 1982/1983 and 1983/1984 it is assumed that the GOS pricing policies generated a surplus through rice and groundnut profits. This implies some optimistic assumptions on world prices.

- d) The debt service burden is rescheduled regularly so as to avoid excessive burdens. These calculations are extremely tentative however, and require more detail data on present debt structure and certain rescheduling terms. Only a basic approximation is used here.
- e) The Sixth Plan expenditures are pared down from a total of 464.0 billions CFAF to about 350 billions CFAF, which includes items in the current budget and in the public investments made by the Ministry of Plan.
- f) The basis for these projections is the data on p. 9 of the IMF Stand-By agreement of September 1981.

The projections suggest an improvement in the public finances resulting from the austerity program of the Reform Plan as well as the aid given by the donors through debt rescheduling and low cost financing of the budget deficit. On this scenario, the relationship of current expenditures to current revenues is brought under control, as well as the accounts of the CPSP. Unfortunately the debt service burden does not allow the generation of an investable surplus to be contributed as the domestic savings component of the Sixth Development Plan. On the optimistic scenario the Sixth Plan remains entirely financed through external sources.

These data indicate that the stabilization program will take most of the 1980's to accomplish. The austerity program is likely to be long and hard. Of course sudden windfalls or poor harvests can easily change the results of this scenario.

Table 24 shows the results of a pessimistic scenario and Table 25 calculates the average scenario.

TABLE 24

PESSIMISTIC PROJECTIONS FOR SENEGAL'S STATE FINANCES  
1981/1985 - IN CFAF BILLIONS

ITEMS	1981/82	1982/83	1983/84	1984/85
1. Budget Revenues	144.5	151.7	159.3	167.3
2. Current Exp. (Exc. Int.)	146.5	158.2	170.9	184.5
3. Budget Sources before Debt	- 2.0	6.5	-11.6	-17.2
4. Other Public Savings	-13.0	- 8.2	- 5.2	4.2
5. Public Savings before Debt	-15.0	-14.7	-16.8	-21.4
6. Debt Service	23.0	40.0	45.0	50.0
7. Investable Surplus	-38.0	-54.7	-61.8	-71.4
8. Public Investments	70.0	70.0	70.0	70.0
9. % Self Financing	-	-	-	-
10. Debt Service % of Budget	15.9%	26.4%	28.2%	29.9%

TABLE 25

AVERAGE SCENARIO FOR SENEGAL'S NET PUBLIC SAVINGS BEFORE DEBT SERVICE AND PUBLIC INVESTMENTS IN BILLION CFAF

YEARS	PUBLIC SAVINGS BEFORE DEBT SERVICE			AVERAGE % MILLIONS
	OPTIMISTIC	PESSIMISTIC	AVERAGE	
1981/82	- 15.0	- 15.0	- 15.0	- 54.5
1982/83	5.1	- 14.7	- 4.8	- 17.5
1983/84	16.3	- 16.8	- 0.3	- 1.1
1984/85	26.8	- 21.4	2.7	9.8

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The assumptions that have been modified are as follows :

- a) Budget revenues increase by only 5% per annum as the GOS finds itself unable to generate more revenues ;
- b) Budget expenditures rise by 8% per annum as the GOS is unable to contain the growth of wages and salaries ;
- c) The accounts of the CPSP are negative by 8.2 billions CFAF in 1983, 6.6 billions for the price of rice which did not go up by 25% and 1.6 billions due to fertilizers.
- d) Debt service is less favorable as performance is not up to expectations.

74. - For the sake of comparison, an average scenario of public savings before debt service is presented in Table 25.

75. - Again, as with the balance of payments, the simple projections on the State Finances indicate that stabilization will be a long and drawn out process, requiring extensive external support. The GOS will have to play its part by applying the Reform Plan, and then some, but the donors will have to be ready to help the GOS in this endeavor in the full realization that the stabilization program initially envisioned at 2 to 3 years, may well take 6 to 10 years. The above is of course based on present information and current trends. Windfalls, of say oil or high phosphate prices, or successive bumper groundnut harvests in conjunction with favorable world prices could radically alter these conclusions.

76. - Senegal, as a recipient of AID assistance, faces a number of macro-economic problems, notably in the areas of balance of payments and agricultural pricing, which can only be solved through the type of actions now being undertaken. These actions -The Reform Plan- imply changes in basic policies and some structural readjustments in the economy. It is no wonder then, that cognizance of these reform movements are necessary to shape the pattern and composition of AID assistance 43/

77. - Implications for CDSS FY 1983 and Future CDSS's

The preceding analysis in sections II to VI has brought out certain clarifications which should be integrated in AID/Senegal's on going monitoring of the economic and political situation in Senegal.

With respect to the current crisis 44/ it would be worthwhile to underline the following proposed modifications :

(i) The Senegal economic and financial crisis is much more serious than that implied by the CDSS. Several key indicators need to be underlined to drive this point home in no uncertain terms. These are :

1°) Senegal's growth has been slow and erratic ; most importantly GDP per capita has declined at the rate of -2.3% per annum since 1975 ; it is not politically feasible for this situation to go on unchecked.

2°) Consumption expenditures had risen to about 100% of GDP by early 1981 implying zero national savings ; this means total reliance on external financing for investment.

3°) Senegal's resource gap has risen from 22.2 billion CFAF in 1975, a manageable figure, to 85.0 billion CFAF in 1980, with an even higher figure forecast for 1981.

4°) The balance of payments current account deficit has increased from 16.5 billion CFAF in 1977 to an estimated 104.5 billion CFAF in 1981.

5°) The external debt service ratio stood at 23% in 1980, and is expected to be 29% in 1981 45/

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43/ This issue has been discussed at length in : Thomas Morisson "AID Macro-economic Analysis at the Country Level : Implications of 1982/1986 CDSS Review" PPC/EA June 2, 1980

44/ The CDSS FY 1983 analyzes the current crisis in Senegal, and this section deals with possible modifications in approach.

45/ The seriousness of the situation is underlined by the fact that an 18% debt service ratio is usually taken to be an upper limit.

6°) The State Budget is in disequilibrium with the 1981 figures projected to show that the state is unable to cover its current expenditures (excluding the interest on the external debt). When you add on top of this deficit, the debt service burden (interest plus principal), the deficit of the CPSP and the public investments noted in the Sixth Plan, the overall shortfall is quite staggering.

- (ii) At the heart of the growth equation in Senegal lies agricultural production. For a myriad of reasons the agricultural sector has failed to grow. That is the root cause of the crisis. The reasons have been explained in some detail previously. Suffice it to say that other than for natural and resource type constraints, the major bottlenecks have been African Socialism (Senegalization), the low productivity of investments channelled through the poorly managed RDA's, the GOS agricultural pricing policies designed to subsidize urban consumers at the expense of rural producers, and the displacement of private initiatives, with entrepreneurs often characterized in a most pejorative way as hoarders, speculators and profiteers.
  
- (iii) Agricultural pricing policies have been much more important in the failure of agriculture than previously suggested in the CDSS. Up until 1974, with a little help from world prices, the price structure subsidized urban consumers at the expense of rural producers. In 1973/1974 due to the droughts, the GOS raised producer prices, but let them lie unchanged until the next series of droughts in 1979/1980, while consumer prices climbed in line with the new policy of "vérité des prix". Again producer prices were raised radically in 1980/1981. All this to suggest that pricing policies have not only been detrimental to the producers, but they have been erratic with price changes unplanned. As a result when world prices decided to no longer cooperate, the accounts of the CPSP went into chronic deficits.
  
- (iv) The need for change was an absolute necessity. Faced with the deteriorating situation there was no recourse but a Reform Plan or bankruptcy. This needs to be underlined as it shows the gravity of the financial situation.

78. - With respect to the Reform Plan, the following observations of importance to the AID Assistance Strategy should be noted :

- (i) The Reform Plan as originally designed and inaugurated by the Prime Minister, Abdou DIOUF in 1979, was a first attempt at a comprehensive and coordinated attack on the economic and structural ills of Senegal. It partially failed on three grounds :

2°) The stabilization horizon was taken to be only 2 years followed by a growth program to complete the Sixth Plan. Considering the depth of the problem, the 20 year heritage of African Socialism and the structural adjustments required, this was at best an unrealistic time horizon for the stabilization program

2°) No account was taken of the probabilities of another poor harvest and what it might do to the Reform Plan ; in point of fact, 1980/1981 was the worst harvest in the last decade with disastrous financial repercussions for FY 1981/1982 ;

3°) The donors, multilateral and bilateral (US AID included), closed their eyes to the economic realities of the situation and endorsed the Reform Plan as is ; one can only assume that they were so pleased to see a comprehensive Plan of Reform that they relegated the practical considerations of implementation to a secondary plane.

(ii) In fact two factors acted against the rapid implementation of the Reform Plan. And both of these will continue to remain as potential bottlenecks. These were :

1°) The very poor harvest of 1980/1981 and

2°) The inability of the bureaucratic machinery to implement such a sweeping plan in such short a time. The Reform Plan had to be modified in the summer of 1981 to include additional measures. It should therefore be clear that the Reform Plan should be considered for the CDSS, as a dynamic document flexible enough to respond to changing circumstances, and not as a once and for all plan of action.

(iii) The preliminary projections for the balance of payments and the State Budget through the period 1981/1985 indicate that the current account deficits and the inability of the State to generate public savings, even on the most optimistic assumptions are problems likely to remain with Senegal until the end of the 1980's. This would imply as previously mentioned a stabilization program of anywhere from 6 to 10 years. What a stark contrast with the initial 2 year assumption.

(iv) Of note for the AID Assistance strategy and the upcoming CDSS's are the potential obstacles to the successful implementation of the Reform Plan. They are only listed here, as they have been discussed in section . The difficulties are :

1°) raising the price of rice and eliminating the consumer subsidy ;

2°) paring down personnel costs of the GOS and the parapublic sector ;

3°) preparing popular participation for the austerity program ahead ; 46/

a 4°) mobilizing the lower echelons of the bureaucracy for implementing the Reform Plan ; 47/

5°) choosing projects that will contribute directly to output and generate foreign exchange ;

6°) the debt service burden will have to be reduced by relying exclusively on concessionary aid and respecting borrowing ceilings;

7°) the price fixing policies of the GOS are subject to high probabilities of choosing the wrong prices ; note that "vérité des prix" and price liberalization are not at all complementary policies.

(v) With all this said there is no doubt that significant progress has been made in implementing the Reform Plan. AID/Senegal should encourage the integration fo the Reform Plan, the Sixth Plan and the longer term perspectives into a 20 year strategy for economic development in Senegal. It is clear that very little interaction exists between the two plans. And yet, if stabilization is the primary goal of the GOS, the Sixth Plan and future Plans should reflect this policy choice. This point is even more relevant, now that the data suggest stabilization to be at least a medium term process.

79. - With respect to the following proposition ; "the long range goal (2000 AD) of U.S. assistance to Senegal is food self sufficiency defined in its broadest sense as : Senegal's achievement of the capacity to feed its people, by domestic production and storage and by trade even in drought years" 48/ which constitutes the backbone of the AID assistance strategy, the following observations are pertinent :

(i) In view of the cash crop requirements of the stabilization program which has now been established as a 6-10 year program, there seems to be an a priori conflict under conditions of fixed supply of arable land, between the crop pattern

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46/ Can this realistically be done before the 1983 Presidential elections ?

47/ Taking the serious economic issues now facing Senegal out of the closet of the higher Senegalese officials.

48/ AID, CDSS FY 1983, op. cit. p. 20

envisaged to meet stabilization requirements and the one to meet long term goals of self sufficiency. This would seem particularly acute between groundnuts and most cereals (millet in particular) other than rice. Crop diversification, which is also a basic subgoal of the AID assistance strategy may also suffer as a result of the requirements of stabilization. Already the GOS has reacted to increase groundnut producer prices by 40% in 1981 in order to encourage the planting of groundnuts for export ;

- (ii) However the relative price (groundnut/millet) analysis of section II suggests that, so long as the drought cycles continue and the marketing of millet remains insignificant, the farmers will not react to relative price changes in favor of groundnuts by cultivating less millet. Food security seems to be the primary motivation, and only once that condition is satisfied can the farmer be expected to react positively to the relative price structure. At present, raising the price of groundnuts relative to millet will not result in conflicting goals. The situation could change, however, especially if several good years follow upon each other.
- (iii) Raising the price of groundnuts relative to cotton, corn, tomatoes, etc... will encourage the production of groundnuts at the expense of crop diversification. In this case, the foreign exchange requirements of stabilization tend to come in conflict with the longer term goals.
- (iv) What is required for the AID assistance strategy is to put some numbers behind these propositions. At different relative price levels, what will be the resulting crop pattern with all its implications with respect to the cash crop/food crop dichotomy ? In view of the necessity of implementing the Reform Plan and of stabilizing the economy, this information would be crucial to the CGPA. At present the pricing policy is somewhat random or waiting for the results of the SONED model<sup>49/</sup>. Yet every year producer prices for groundnuts, rice, millet, cotton, corn, etc... must be announced by April, and their implications have national repercussions.

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<sup>49/</sup> One may have to wait for a long time. Besides the situation is too complex to lend itself to mathematical modelling.

80. - Implications for the Composition of AID assistance

As already noted in the CDSS for FY 1983, AID/Senegal plans to place a greater emphasis on non-project assistance. This conclusion deserves to be developed in line with the over all requirements of the stabilization program. It should become the cornerstone of AID's medium term strategy, for only significant efforts on the part of the GOS and the donor community will enable Senegal to achieve financial stabilization.

At present the probable composition of AID assistance is as shown in Table 26. In line with the strategy espoused in the CDSS the percentage of non-project assistance in the total package increases

TABLE 26

ANTICIPATED AID ASSISTANCE PACKAGE IN \$ U.S. MILLIONS 1982/1986

	1982	1983	1984	1985
Project Assistance	25.0	27.5	32.0	35.5
Non Project Assistance	12.0	25.0	25.0	25.0
ASG	( 5.0)	( 5.0)	( 5.0)	( 5.0)
Title III	( 7.0)	(10.0)	(10.0)	(10.0)
ESF	( - )	(10.0)	(10.0)	(10.0)
Non Project/Total	32.4%	47.6%	43.8%	41.3%

SOURCE : CDSS FY 1983, AID

to an average of 45% during the 1983/1985 period. Additional years have not yet entered into the programming stage as far as non-project assistance is concerned. Table 27 indicates the relationship between this projected non-project assistance and the estimates of the balance of payments shown in Table 22 <sup>50/</sup>. The data indicate that non-project assistance for the years 1983-1985 will amount to about 8% of the anticipated deficit. This is by no means an insignificant amount and it goes a long way towards supporting the balance of payments deficits during the stabilization period of the Reform Plan.

The following recommendations relate to the composition and direction of the AID/Senegal assistance package in support of the GOS Reform Plan :

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<sup>50/</sup> The average scenario is used for comparison.

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TABLE 27

NON PROJECT ASSISTANCE AS A PERCENTAGE OF THE CURRENT ACCOUNT  
DEFICIT : \$ US MILLIONS

	1982	1983	1984	1985
Current Account Deficit	337.1	351.6	314.2	344.0
Non Project Aid	12.0	25.0	25.0	25.0
% Non Project/Deficit	3.6%	7.1%	8.0%	7.3%

- 1°) As mentioned in the US Senegal Joint Assessment 1980, the current AID approach by itself was not suited to solving Senegal's economic crisis. In view of the economic situation described in the preceding sections and the foreign exchange needs of the stabilization program, USAID/Senegal should consider raising its non project assistance level to 60% of the total package. With the current project assistance commitment this would imply raising the current contemplated non project assistance levels of \$ 25 millions to about \$40-45 millions and thereby the contribution to the current account deficit to about 13%-15%. Conversely, if the total package cannot be changed, it would still make sense, given the requirements of the GOS Reform Plan, to raise the allocation to non-project assistance to the 60% level.
- 2°) At present non-project assistance is programmed on a preliminary basis through 1985. As of now, it would be wise to program the non project assistance component to last as long as the stabilization portion of the Reform Plan. Note that on the basis of the preceding sections, stabilization, given the great difficulties facing the Senegalese economy, is likely to last from 6 to 10 years
- 3°) The non project assistance foreign exchange generated should be coordinated with the IMF/IBRD multilateral contributors as well as with the major bilateral contributors. The fiscal and balance of payments support throughout stabilization need to be coordinated by the GOS and the donor community so as to avoid violating some of the ceilings established by the Reform Plan.
- 4°) Non project assistance wherever possible, should be used (e.g. Tital III, ESF, Agriculture sector grant) to promote economic liberalization, a greater reliance on individual initiatives and a disengagement of the state bureaucratic apparatus from the economy. The existence of non-project assistance is itself an indication of the USAID's support for the Reform Plan. This should be emphasized in the implementation of the program.

5°) The second component of non-project assistance to the balance of payments, the local currencies generated can also contribute to the support of the Reform Plan. In this vein AID/Senegal must ensure that the use of these funds is in line with the requirements of the Reform Plan. Thus local currencies could be disbursed along the following criteria :

- (i) agriculture related.
- (ii) output oriented.
- (iii) export biased.
- (iv) tangible results
- (v) aid to on-going production oriented project who lack counterpart funds due to present crisis.
- (vi) encourage private entrepreneurship.
- (vii) agricultural credit institutions.

In sum, non-project assistance is a key component in the USAID effort to help the GOS implement its Reform Plan. It provides the right kind of aid at the right time and permits the type of joint donor effort which is so important to the stabilization program.

81. - By contrast, for new projects to best help the GOS Reform Plan they must be :

- (i) prepared in conjunction with the special unit in the Ministry of Plan whose function it is to identify the core projects to be financed in the Sixth Plan.
- (ii) in conformity with the requirements of the Reform Plan.
- (iii) validated by an acceptable rate of return.
- (iv) to the extent possible, contributors of foreign exchange directly or indirectly.
- (v) designed with dependance on private initiatives.

In fact USAID/Senegal should insist that the special "core project unit" in the Ministry of Plan be formalized to improve the choice of public investments.

82. - AID Strategy With Other Donors

The most effective way for AID/Senegal to conceptualize its collaboration with other donors is to distinguish two groups of donors :

- (i) the multilaterals, basically the IMF and the World Bank ;
  - (ii) the bilateral donors, principally France the leading donor in the European community and Saudi Arabia as a leading member of a new set of donor nations, the oil exporters of the Persian Gulf region.
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84. - With respect to the IMF/IBRD collaboration, USAID should allow them to play the leading role in the design and monitoring of the reform, in the macro-economic analysis with its macro- and sectoral policy implications, in the constant updating required to monitor recent developments. The IMF/IBRD teams are particularly well placed to play this leading role, and they have a great deal of experience in major policy reforms, structural adjustments and financial crisis. Yet AID/Senegal must keep in touch with the "lead donors" so as to obtain the necessary information which will impact its own decisions. To do this from an institutional point of view, AID/Senegal must assign the liaison responsibility with the IMF/IBRD Dakar office to the mission Program Economist and demand quarterly updates on the macro-economic situation, on the new data available and on recent developments of importance. In this particular case a great deal of energy must be inputted in comparing the progress of the economy with the targets of the Reform Plan. And of course trends must be extrapolated to see what could be the implications for the AID program.

In sum the liaison program economist will have the responsibility of programming routine contacts with the IBRD Dakar office, with arranging meetings with the various IMF/IBRD missions dealing with the GOS Reform Plan and with coordinating USAID mission activities with the changing economic situation and the changing requirements of the Reform Plan. At the same time, this rapprochement will allow the USAID Mission Director to throw his weight, and the weight of his assistance, behind the more difficult aspects of the Reform Plan (e.g. Such as raising the price of rice) where the IMF may have difficulties in obtaining GOS performance.

85. - With respect to the other donors, the most effective form of collaboration in support of the GOS Reform Plan would be through the proposed donor consultative group in the CDSS FY 1983. With the apparent approval of the GOS, this informal donors group has already met in Paris twice, once on the rescheduling of the public debt and the budget requirements of the GOS for FY 1981/1982 in early October 1981 and once on the core projects of the Sixth Plan and their financing in late October, 1981. The group would consist of the IMF, the IBRD, France, Germany, the EEC, Canada, Holland, Belgium and some of the OPEC States.

By structuring and formalizing this consultative group into a functioning organization with regular meetings and exchange of information on each other's activities, it would be possible to have a unified approach for supporting the GOS Reform Plan. Of course, the IMF/IBRD would play the leading role at the macro policy structural adjustment level, but the donors would have access to the macro information likely to affect the success or non success of their projects.

One would have to overcome the natural reluctance of the GOS to such a formal arrangement. From their point of view, it is easier to negotiate with each donor separately. A concerted donor action may limit their choices, and seen from their point of view, this would not be necessarily in their interest. Here USAID/Senegal should point out the merits of joint donor actions in stimulating the growth of the agricultural sector through the elimination of conflicting policies, and in

aiding the GOS to achieve stabilization through comprehensive fiscal packages.

Again at the AID institutional level, the consultative group activity would require the assignment of liaison personnel to the major donors and to the Group as a whole. This liaison activity would probably not be as involved as the liaison with the IMF/IBRD.

86. - There are several important areas for joint donor action in support of the GOS Reform Plan that come readily to mind :

- 1°) Balance of payments support.
- 2°) State budget support.
- 3°) Implementation of the Reform Plan targets.
- 4°) Agricultural pricing policies.
- 5°) Price fixing mechanism for rice, sugar, groundnuts, groundnut oil, bread, cotton, millet etc...
- 6°) Design of Agricultural credit.
- 7°) Project identification (major projects).
- 8°) Joint evaluation of Reform Plan performances.
- 9°) Definition of a long term perspective for Senegal.
- 10°) Resolution of crisis situations.
- 11°) Coordination of donor activities within the donor community.
- 12°) Coordination of donor activities with the GOS.

Since each donor's program has a potential effect on the Reform Plan, it would be more than useful to coordinate these efforts in one forum. For example, it is rather clear that the IMF in negotiations for a Stand-By agreement and the IBRD for the SAL, were extremely influential in gently coercing the GOS to accept a comprehensive Reform Plan. Moreover, in untold hours of discussion and negotiations these donors helped shape the Reform Plan in what it is today. They have consistently pressured the GOS to move in the required directions withholding financial support as the situation warranted. France has had a significant impact on the reforms associated with seed distribution, reconstitution of seed stocks, weighting procedures for groundnuts and general marketing policies. The interrelationships to the structural readjustments, so necessary for Senegal, are obvious and there can be no better organizational apparatus for harmonizing the different actions into a consistent whole, than the consultative group. USAID/Senegal should continue to push in this direction.

86. - AID Strategy with the GOS

In the previous paragraphs it was suggested that the past strategy for USAID to collaborate with other donors in seeing that the Reform Plan is implemented was by :

1) accepting the lead of the IMF/IBRD on the macro-economic questions, while instituting a close in house liaison mechanism to keep abreast of developments and to feed back on the AID package ; and 2) being a leading advocate of the Joint Donor Consultative Group as an operational and structured forum for decision making in areas of joint action. We turn now to the third area of possible action by USAID/Senegal in supporting the Reform Plan, that of establishing a policy dialogue with the GOS.

Fortunately the initial overall institutional framework for this type of a dialogue was already established in late 1979 early 1980 through the US/Senegal Joint Assessment of the AID program in Senegal for the years 1975/1979. Among the major conclusions of the assessment, we note :

- a) current AID project assistance by itself is not suited to the present requirements of Senegal and,
- b) a method must be found to coordinate U.S. bilateral aid to Senegal with at least the major multilateral and bilateral donors.

Thus, the dialogue procedure has already proved its usefulness for the AID/Senegal assistance strategy. Non-project assistance is already becoming an important part of the package and since the assessment, there have been joint donor meetings to review Senegal's fiscal situation.

85. - To further the Reform Plan, AID/Senegal should first and foremost enter into a policy dialogue with the appropriate officials. The following areas seem particularly appropriate at the present time :

- a) Dialogue with the Ministry of Plan - on the strategy of economic development, on the feasibility of achieving Sixth Plan targets, on the lack of coherence between the Sixth Plan and the GOS Reform Plan, on the choice of priority production oriented projects on a review of the performance of the stabilization program, on the anticipated forecasts for the balance of payments and the State Budget. The dialogue should take place as needed but include at least two high level meetings per year to assess the improvements in the public investment choices, an area signalled out for Reform.
- b) Dialogue with the Ministry of Economics and Finance - on the tax measures to generate additional revenues, on the improvement in tax collection methods, on the performance of the committee for Economic and Financial Coordination, on the paring down of personnel

expenditures, on the consolidation of GOS accounts, on the state of the external public debt and the likely future burdens on the state budget, on the progress of the monthly monetary and financial indicators for monitoring the recovery program. Particular attention should be attached to the "Direction de la Dette et des Investissements" where the external public debt accounts are kept.

- c) Dialogue with the BCEAO -on the performance of imports and exports, on the foreign exchange reserves, on the future balance of payments projections, on the debt service ratio.
- d) Dialogue with the Prime Minister's Office, where certain key decisions are taken and where important activities are monitored on the general performance of the Reform Plan, on the progress in contract-plans and the redress of the parapublic sector, on the decisions of the CGPA with respect to agricultural pricing, on the performance of the Unit Responsible for Monitoring total Staff and payroll, on the decisions taken in the Groupe d'Etude du Secteur Parapublic (GESP)".
- e) Dialogue with the CPSP -on the performance of the various accounts, on the pricing policies and its effects on the financial flows through the CPSP, on the need for changes in certain prices, on the price liberalization policy and its implementation.
- f) Dialogue with the RDA's -on the impact of the Reform Plan, on their modus operandi, on their anticipated results, on the USAID financed projects and their performance, on the need for additional financing, on the problems faced by the RDA's in their relations with the GOS.
- g) Dialogue with the Ministry of Rural Development -on the performance of the Agricultural sector, on the development strategy, on the anticipated crop outputs in the current year, on the financial implications of the groundnuts crop, on the advances in irrigated rice and crop diversification, on the need for recurrent cost financing.

86. - While by no means exhaustive in either organizations or topics related to the Reform Plan, the AID/GOS policy dialogue should be pursued in a consistent fashion with the relevant officials in at least these key organizations. This exchange of views will facilitate the monitoring of the Reform Plan by USAID/Senegal while at the same time help to define the bottlenecks to implementation. It will also enable USAID to press for its views on the various issues involved in the Reform Plan and in the AID assistance package itself. The exchange will allow the GOS to discern more clearly the

priority areas of reform for the USAID package, as well as the possible conditioning that may arise.

88. - In order to pursue this systematic dialogue with GOS officials, a special Reform Plan Monitoring Unit will have to be set up within USAID/Senegal. This unit will have as a basic function the follow up of the Reform Plan, its progress, the problems encountered and would report on a quarterly basis to the Mission Director. It would also coordinate the liaison activity of the program economist with the IMF/IBRD, and the contacts with other donors, either through the consultative group or through individual contacts. Thus, the Reform Plan Monitoring Unit would keep the mission up to date on developments, recommend changes in AID strategy in support of the Reform Plan and coordinate the various contacts with the GOS the IMF/IBRD and the Joint Donor Forum.

87. - Moreover the Reform Plan Monitoring Unit would feedback to project design the guidelines necessary to harmonize projects with the Reform Plan objectives, the conditions to be attached to the approval of specific projects presented by the GOS, and define in the beginning of each fiscal year the intended optimal breakdown between project and non-project assistance. This latter function is especially important during the stabilization period of the Reform Plan.

88. - On the basis of the recommendations of the Reform Plan Monitoring Unit, USAID/Senegal should apply as a second measure in support of the Reform Plan a policy of conditioning assistance. The IMF and the IBRD condition assistance to GOS performance on specific aspects of the structural adjustments. Through the "open dialogue" policy with various GOS officials, USAID will have presented its point of view, which should be in harmony with the other donors, and most specifically with the IMF/IBRD. It should be no surprise, then, if conditioning of assistance is used to ensure progress.

At the macro-level non project assistance can be tied to certain policy decisions that have yet to be taken but which are part of the Reform Plan ; or it can be tied to the performance of certain key indicators. For example, the ASG or the ESF, could be conditioned to a 25% increase in the price of rice ; or the financing of certain SODEVA projects can be linked to a decrease in redundant personnel over a reasonable period of time. While illustrating the point, these examples show that conditioning in countries such as Senegal are almost a *sine qua non* to moving an otherwise lethargic bureaucracy. Similarly, project conditioning can also be used as a tool for insuring performance on the Reform Plan. Projects could be financed only if they are in line with Reform Plan objectives and criteria. USAID/Senegal would have the choice to apply or not apply conditioning depending upon the circumstances.

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At present, the key Reform Plan issues requiring attention on the part of USAID, through the process of dialogue, conditioning of assistance, joint donor pressure and unconditional backing of the IMF mission are :

- a) the price of rice ; it must be raised by 25%
- b) the control of personnel costs in the current expenditures component of the state budget ;
- c) the functioning of the various special units ; economic and financial coordination in the Ministry of Economics and Finance ; personnel monitoring and control in the PM's office ; project evaluation in the Ministry of Plan ; audit of the CPSP.
- d) borrowing ceilings on the external debt must not be passed ;
- e) control of imports ; subsidies for exports ;
- f) elimination of consumer subsidies ; price liberalization ; encouragement of private initiatives ;
- g) the setting of producer prices in line with world market constraints ; progressive elimination of price fixing mechanism ;
- h) definition of a sound agricultural credit system ; elimination of input subsidies to the farmers ;

It would then be the task of the Reform Plan Monitoring : to direct the course and sequence of USAID/Senegal actions support of these reforms.

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## VIII. SUMMARY AND CONCLUSIONS

91. - Two macro-economic issues -namely balance of payments disequilibrium and agricultural pricing policies- were isolated by AID/W for special examination by AID/Senegal. They were deemed to be of particular importance for the AID assistance strategy.

92. - In fact, in Senegal, the two issues are intricately related. Agricultural pricing policies influence the level of groundnut production which in turn is a major earner of foreign exchange. On the consumer side, food pricing policies are accompanied by expensive subsidies which tend to increase food imports at the expense of domestic production. Thus, it was not advisable to make a clear delineation between the two issues in discussing the current economic crisis on the Reform Plan. The approach has been to look at the Reform Plan as an integrated package whose chance for success lies precisely in the fact that it addresses a myriad of related problems in different areas simultaneously. Wherever possible, however, the analysis has made the distinction between the two issues.

93. - The analysis of macro-economic -GDP, aggregate demand, resource gap, balance of payments, external debt and the public finances- reveal a serious financial crisis which initially manifested itself in 1978. Since then, a series of very poor harvests have considerably aggravated the situation, such that by late 1981, the GOS had to turn to a joint donor group to fill the \$ 300 million gap in the public finances for FY 1981/1982. The data show a progressive increase in the balance of payments deficit, a rapid increase in the external debt, a debt service ratio projected at 29% for 1981, and a stagnating economy which has already seriously mortgaged its future export earnings.

94. - A redress of the economic situation requires sustained growth in agricultural output, particularly groundnuts, in the near term and a comprehensive far reaching austerity program. These, in turn, are conditional on certain structural adjustments, some radical changes in fiscal and pricing policies, and a progressive departure from the post independence policy of Senegalization and benign African socialism. At the heart of the problem lies the question of how to stimulate agricultural output.

95. - The analysis of GOS pricing policies reveals a regime consisting in fixing producer prices for agricultural goods at levels well below world prices, so as to subsidize sensitive food products for the urban population, as well as key inputs for the rural producers. While the GOS did in fact announce a move towards a true pricing policy as of 1973/1974, it did not implement it rationally. Producer prices were revised radically upwards in 1973/1974 and again in 1981. The intermediate period saw constant producer prices and a consequent erosion in the rural/urban terms of trade as measured

by the ratio of rural producer price indices and the urban consumer price index. It was only the force of circumstances, namely the droughts, which moved the GOS to encourage agricultural production through price incentives. In fact, the world price movements for the period in question show that the GOS did have a margin with which to encourage rural producers, but preferred to cater to the needs of urban consumers.

96. - In view of the foreign exchange requirements for the stabilization program, the GOS raised the price of groundnuts by 40% in 1981. The price of millet rose by only 25%. Surprisingly enough an analysis of past data suggests that the change in the relative prices of groundnuts and millet in favor of the former will not affect the acreage split between the two crops. In other words the substitution effect in the present circumstances is weak, precisely because as a result of the drought cycle, the farmer has become a risk averter, preferring food security to cash in hand.

97. - Agricultural pricing policy is conducted by the CGPA and the CPSP under the Prime Minister's and eventually the President's guidance. The importance of certain prices -groundnuts, rice- make it mandatory that the decisions be taken at the very top of the political pyramid. Yet it must be pointed out that the system is a price fixing mechanism, and remains so in the Reform Plan, for the key crops and food items. Price liberalization for these items therefore implies a more rational controlled price, and not a reliance on market forces.

98. - In section III the main areas of the Reform Plan, inaugurated in late 1979, and made more precise by Senegal's declaration of economic and financial policy in the SAL agreement of 1980, is retraced. Section IV analyzes the progress to date and the modifications in the Reform Plan resulting from the recent IMF/GOS negotiations on the Stand-By Arrangement. The slow progress on the Reform Plan in early 1981, in conjunction with the poor harvests, had forced a reconsideration of the EFF and the SAL. The rapid deterioration of the economic situation had forced a revision in Reform Plan targets and a lowering of expectations. It was clear that both the GOS and the donor community had been overly optimistic about the ability of Senegal to stabilize its fiscal and balance of payments situations by 1981/1982. The economic situation was in fact much more serious than originally thought and the bureaucracy much more lethargic in implementing the Reform Plan. Moreover, some of the structural adjustments demanded by the IMF/IBRD in return for assistance, were increasingly recognized as lengthy operations. It had taken 20 years to achieve the current crisis. It could not realistically take 2 years to unravel the mess and stabilize the situation. Stabilization had to be conceived as a 6 to 10 year operation.