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Adjustment Postponed: Economic Policy Reform in Senegal in the 1980s

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Elliot Berg and Associates

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7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

PREFACE

Senegal's distinctions are many. It is one of Africa's few multiparty democracies. It is also one of the world's most heavily aided countries; aid inflows in recent years have amounted to some 20 percent of Gross Domestic Product (GDP). Its economic growth since independence in 1960 is the slowest of any African country untouched by war or civil strife. It has a long record of formal effort in policy reform aimed at structural adjustment; its 1980 structural adjustment loan (SAL) was one of the first granted by the World Bank.

Perhaps because of all these distinctions, it has become one of the world's most studied countries. As of early 1990, there had been no fewer than four official reviews of Senegal's adjustment program by the United States Agency for International Development (USAID). The French government had sponsored at least three assessments by that date, and in 1989 the World Bank completed a lengthy internal study of the Bank's lending to Senegal since 1960 — the most intensive in a long series of Bank reviews. The Overseas Development Institute in London included a major chapter on Senegal in its 1988 study of structural adjustment in African and Latin American agriculture. And there are an unknown number of other studies in gestation.

This report thus comes onto an already crowded stage. Some — perhaps much — of what it says will be familiar to those most concerned with Senegal's economic development or structural adjustment in poor countries. But, at the same time, we have been able to draw on these previous assessments and benefit from their insights. We have also differentiated our approach to explore areas not so well covered in existing studies.

Most evaluations of structural adjustment or policy reform are concerned primarily with the effects on ultimate economic outcomes — rates of inflation or growth of output or exports, for example — or in such intermediate macroeconomic outcomes as budget and balance of payments behavior and investment rates.

Economic impacts are given considerable attention in this study. In the first chapter, on macroeconomic policies, and in the concluding chapter, we review growth trends and consider Senegal's present competitiveness, given its domestic cost (especially labor cost) structure and the special features of its exchange rate situation. In Chapter Two, on the state enterprise sector, we look for impacts of reform on productivity of state enterprises, and at more qualitative indicators of performance. And in Chapter Three, on agricultural policy reform, we examine trends in farm output and try to discern intermediate effects of the policy changes introduced during the decade of policy reform. Chapter Four has something to say about the impact of the New Industrial Policy on employment and output in that sector. In Chapter Six, we explore political effects of the adjustment experience. In several of the chapters, and in the conclusion, we address the broad issue: have the reforms led to structural changes that could be called "adjustment."

Our main concern, however, is less with economy-wide output effects of the policy reforms than with microreform at the sectoral and subsectoral level, with emphasis on the input side of the reforms. Our main questions are:

- Were the diagnoses and prescriptions of the sectoral reform programs soundly conceived? Was their analytic basis firm, and were their priorities right?

- Was the program well designed? Were instruments and targets well linked, implementation properly sequenced, administrative feasibility (or institutional absorptive capacity) considered, local involvement sought?

- Was the program implemented? To what extent was conditionality adhered to?

We chose to focus on these questions for a number of reasons. The input and implementation side of adjustment lending has not received much detailed attention in the form of case studies. Implementation has been looked at mainly in comparative analyses, as in the World Bank's two reports on adjustment lending (1988 and 1990). The political economy literature on implementation tends to look at the interplay of political forces in reform. The internal report by the World Bank's Operations Evaluation Department (*The World Bank and Senegal, 1960-1987*) addresses some of the input and process issues, but does so partially and mainly in agriculture, and is necessarily much less detailed than the present report.

It can be argued that study of input issues is more relevant than the study of outcomes. The enormous methodological problems of linking output changes to particular reform programs are well known. Results of such studies are rarely credible. But, more important, improvement of the quality of reform programs requires more detailed case study analyses of past effort. And moreover, there is not much point in assessing the effectiveness of policy reforms by looking at economic outcomes if the reforms are poorly implemented.

Neglect of this last-mentioned, simple point has resulted in much misleading controversy. Out of recent debate on the relative weight of price and nonprice factors in explaining changes in farm output has come a consensus view that better prices alone cannot get agriculture moving. The corollary conclusion is that World Bank or USAID reform programs in the 1980s concentrated too much on price policy.

That may be so. But it is not proved by cases like that of Senegal, where the policy prescriptions on incentive pricing and appropriately altered relative prices were not consistently implemented. Real agricultural prices were not higher in the 1980s than in the 1970s, and real groundnut prices were only sporadically higher during the decade than they had been in 1980. It is wrong to say, then, as is sometimes said, that Senegalese agriculture has not responded to positive price policy changes. Senegalese agriculture has not really been "tested."

Closer analysis of implementation is thus a prior condition of meaningful analysis of relationships between policy change and output, or even between policy change and intermediate outcomes. Moreover, assessment of reform program diagnoses and prescriptions is useful in a way that analysis of output effects is not: it may help improve the quality of future reform efforts.

It has to be quickly noted that in this study we have not always achieved our methodological intentions. We succeed imperfectly in the assessment of program design and implementation. Much of the history of design debate escaped us. We could not cover everything, even in the sectors we studied; and we had to leave out important areas of reform such as public investment programming and financial sector changes. SAL IV came along too late to be adequately incorporated into our analyses, although we do make some reference to it.

The principal conclusions of this report are sobering. We point out that the effort has brought many improvements in policies and institutions, but not much real adjustment. The title sums up our principal conclusion: that most of the hard adjustment decisions that Senegal needs to make were put off in the 1980s.

Thus, given the lack of an exchange rate policy lever and a low rate of inflation related to West African Monetary Union membership, domestic labor costs should have been directly reduced by establishing greater flexibility in labor markets and restraint in public sector wage policy. This, however, was not done. The result is that Senegal's economy is now no more competitive than it was a decade ago; it is probably less competitive.

The state sector, moreover, has only begun to disengage, and improvements in state enterprise performance are not observable. Agricultural strategy remains problematic; in the key groundnut sector, efficiency-raising liberalization measures remain stalled. The major industrial and trade policy reforms of 1986 and 1988 were significantly dismantled in 1989.

It is no surprise that the output data do not indicate that Senegal has moved to a sustainable higher growth path, or that the economy has been made significantly more productive and flexible than it was a decade ago. Many factors lie behind this unhappy result. We concentrate on two in this report: deficiencies in diagnosis and program design, and lack of implementation.

We find that the main underlying reason for lack of implementation is the erosion of Senegalese political will and capacity to implement reforms because of the aid environment within which reform has operated: lots of donors, lots of money, and a no-sanctions/soft-budget-constraint atmosphere. Two dilemmas exist. The first is that Senegal may need more aid to address its postponed adjustment decisions, while aid levels are already so substantial that they undermine the will to reform. The second pertains to conditionality and structural adjustment lending. The heavy explicit conditionality attached to the policy loans of the 1980s has proved ineffective and often counterproductive. It has not assured implementation or compliance, prevented growth of local "ownership," and is institutionally intrusive. The dilemma is that conditionality-reducing changes are required in aid arrangements, while management of aid agencies and their legislative bosses are disposed toward greater use of conditionality.

This study is the work of many hands. George Baldwin had primary responsibility for Chapters Four and Five, and contributed to the working out of other parts of the report. Louis Goureux was responsible for Chapter One, on macroeconomic policies. Elliot Berg, the study director, drafted Chapters Two, Three, Six, and Seven. Anne Marie Geourjon contributed a background paper on trade policy reform, and Patrick Plane a paper on reform of the public enterprise sector. Gerard Chambas prepared two background papers on social dimensions of adjustment and French government adjustment programs. Mme. Geourjon and Messrs. Chambas and Plane are with the Center for Research on

International Development, University of Clermont, in Clermont-Ferrand, France. Sarah Keener assisted with the research on USAID policy reform programs; her work is incorporated in Chapter Five. Ann McDermott assisted with Chapter Two. David Warren was responsible for editing.

The Swiss Federal Office of External Economic Affairs provided supplementary financing for this study, mainly for supporting the work of Chambas on social dimensions, and for the addition of two Swiss team members. Mme. Regula Frey-Nakonz prepared a background paper on sociopolitical aspects of the adjustment process; much of it is incorporated in Chapter Six. Chapter Three benefitted from a background paper on the groundnut sector by Bruno Stockli. Helpful comments on earlier drafts were provided by staff of the Office of External Economic Affairs.

The main study team was in Senegal for four weeks in mid-1989. Elliot Berg returned for short stays in September 1989 and June and September, 1990. We wish to express our appreciation for the generous cooperation received from USAID's Dakar office, and the sympathy and encouragement we received from Harold Lubell and Sarah Jane Littlefield, then Program Economist and Director respectively of USAID. As should be evident, World Bank staff were most forthcoming. We also received gracious help from other donors and from many busy Senegalese officials and private individuals. USAID staff commented extensively on the draft report, which helped us to clarify arguments and avoid errors.

Elliot Berg
Study Director
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ACC	Agent Comptable Central
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BCG	Boston Consulting Group
BCS	Banque Commerciale du Sénégal
BIAO	Banque Internationale de l'Afrique Occidentale
BICIS	Banque Internationale de Commerce Industrielle du Sénégal
BNDS	Banque National du Développement Sénégalais
BOM	Bureau d'Organisation et Méthodes
CAA	Caisse Autonome d'Amortissement
CCCE	Caisse Centrale de Coopération Economique
CCP	Cellule de Contrats Plans
CEAO	Communauté Economique des Etats de l'Afrique de l'Ouest
CEM	Country Economic Memorandum
CEP	Centre des Etablissements Publics
CESAG	African Center for Advanced Management Studies
CFP	Contrôle Financier de la Présidence
CNCAS	Caisse Nationale de Crédit Agricole du Sénégal
CNP	Conseil National du Patronat
CNTS	Confédération Nationale des Travailleurs Sénégalais
CNTDS	Centre National du Théatre Daniel Soran
COF	Contrôle des Operations Financières
COSENAM	Compagnie Sénégalaise de Navigation Maritime
COUD	Centre des Oeuvres Universitaires de Dakar
CP	Contrat-Plan
CPI	Consumer Price Index
CPP	Country Program Paper
CPSP	Caisse de Péréquation et de Stabilisation des Prix
CSA	Commission de la Securité Alimentaire
CSS	Compagnie Sucrière Sénégalaise
CSPT	Société Nationale des Phosphates de Taiba
CVCCEP	Commission de Verification de Contrôle des Comptes des Etablissements Publics
DAC	Development Assistance Committee
DRSP	Délégation à la Réforme du Secteur Parapublic
DTAI	Direction du Traitement Automatique des Informations
ECA	Economic Commission for Africa
EEC	European Economic Community
EFF	Extended Fund Facility (IMF)
EP	Etablissement Public
ESAF	Enhanced Structural Adjustment Facility
ESF	Economic Support Fund

FNE	Fond National d'Emploi
GES	Groupements Economiques Sénégalais
GESP	Groupe d'Etudes du Secteur Parapublic
GOS	Government of Sénégal
ICOR	Incremental Capital-Output Ratio
ICS	Industrie Chimique du Sénégal
IMF	International Monetary Fund
ISRA	Institut Sénégalais de Recherches Agronomiques
ITA	Institut Technologique Alimentaire
LDP	Letter of Development Policy
LM	Letter of Mission
LONASE	Loterie Nationale du Sénégal
MADIA	Managing Agricultural Development in Africa
MEF	Ministère de l'Economie et des Finances
MOF	Ministry of Finance
MOP	Ministry of Planning
NGO	Nongovernmental Organization
NPI	Nouvelle Politique Industrielle or New Industrial Policy (NIP)
NPA	Nouvelle Politique Agricole or New Agricultural Policy (NAP)
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department (World Bank)
OHLM	Office des Habitations à Loyer Modéré
OMVS	Organisation Pour la Mise en Valeur du Fleuve Sénégal
ONCAD	Office National de Cooperation et d'Assistance pour le Développement
OPT	Office des Postes et Telecommunications
PAD	Port Autonome de Dakar
PAML	Programme d'Ajustement à Moyen et Long Terme
PCR	Project Completion Report
PE	Public Enterprise
PES	Public Enterprise Sector
PIP	Public Investment Program
PPTA	Parapublic Sector Technical Assistance Project
PREF	Programme de Redressement Economique et Financier
QR	Quantitative Restriction
RNCFS	Régie National des Chemins de Fer du Sénégal
RDA	Rural Development Agency or Société de Développement Régional (SDR)
SAED	Société d'Amenagement et d'Exploitation des terres du Delta
SAES	Syndicat Autonome des Enseignants du Supérieur
SAF	Structural Adjustment Facility
SAFAL	Société Africaine de Fonderie et d'Aluminium
SAFCOP	Société Africaine de Commercialisation des Produits de la Mer
SAIH	Société Africaine Immobilière et Hotelière
SAL	Structural Adjustment Loan
SAR	Société Africaine de Raffinage
SEFICS	Société d'Exploitation Ferrovière des Industries Chimiques du Sénégal

SEIB	Société Electrique et Industrielle de Baol
SEM	Société d'Economie Mixte
SENELEC	Société Nationale de l'Electricité
SENOTEL	Société Anonyme de Gestion Immobilière et Hotelière
SERAS	Société d'Exploitation des Ressources Animales du Sénégal
SICAP	Société Immobilière du Cap Vert
SIDEC	Société de Distribution et d'Exploitation Cinematographique
SISCOMA	Agricultural Machinery Corporation
SMIG	Salaire Minimum Inter-Professionnel Garanti
SN	Société Nationale
SNPT	Société Nationale de Postes et Communications
SNSSS	Société Nouvelle des Salins du Sine Saloum
SNTI	Société Nationale de la Tomate Industrielle
SODAGRI	Société de Développement Agricole et Industrielle
SODEFITEX	Société de Développement des Fibres Textiles
SODESP	Société de Développement de la Zone Sylvo-Pastorale
SODEVA	Société de Développement et de Vulgarisation Agricole
SOE	State-Owned Enterprise
SOFIDI	Société Financière pour le Développement Industriel
SOFISEDIT	Société Financière Sénégalaise pour le Développement Industriel et du Tourisme
SOFRIGAL	Société des Frigorifiques du Sénégal
SOMIVAC	Société de la Mise en Valeur de la Casamance
SONACOS	Société Nationale de Commercialisation des Oleagineux de Sénégal
SONAR	Société Nationale d'Approvisionnement Rural
SONATEL	Société Nationale de Telecommunications
SONATRA	Société Nationale de Transport Aerien
SONED	Société Nationale d'Etudes de Développement
SONEES	Société Nationale d'Exploitation des Eaux du Sénégal
SOTEXPA	Société de Textile
SOTRAC	Société de Transport en Commun du Cap Vert
SPHU	Société Propriétaire de l'Hotel de l'Union
SPT	Société de Publicité et Tourisme
SSPT	Société Sénégalaise des Phosphate de Thies
STN	Société des Terres Neuves
SUDES	Syndicat Unique et Démocratique des Enseignants du Sénégal
SUTSAS	Syndicat Uni des Travailleurs de Santé et de l'Action Sociale
TA	Technical Assistance
TOFE	Tableau des Operations Financières de l'Etat
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
UNIDO	United Nations Industrial Development Organization
USB	Union Sénégalaise de la Banque
WAMU	West African Monetary Union

EXECUTIVE SUMMARY

This study of structural adjustment in Senegal is different than most others in that it is concerned less with the impacts of the reform program than with the nature of the reform program itself. Impacts are not ignored. We assess the observable effects of the adjustment program on growth, on Senegal's competitiveness, on productivity in state enterprises, and in the agricultural and industrial sectors. Also, we explore the effects of adjustment on sociopolitical groups, including the rural poor.

But most analytic attention in this report is given to the input side of the reform program. The main questions asked are: were the diagnoses and prescriptions of the sectoral reforms soundly conceived? Was the program well designed in terms of priorities, administrative feasibility, attention to "ownership" concerns? Was the program actually implemented?

The main conclusions of the study are rather somber. Despite many positive changes, little real adjustment took place in Senegal over the decade, and many of the policies set out in government statements or loan agreements were weakly implemented.

We underscore three main sources of failure: (1) lack of "ownership" — much of the political class remains unconvinced about the suitability of key elements in the adjustment agenda; (2) the large volume of aid money combined with the unwillingness of donors to sanction nonperformance created a "soft-budget" environment that tilted the benefit-cost calculus in favor of nonimplementation; (3) inadequate donor (especially World Bank) capacity to invent and supervise so large and complex a program of policy changes led to significant missteps in design and laxity in follow-up.

MACROECONOMIC DEVELOPMENTS: 1959-1984

Unlike most African countries unaffected by civil unrest, Senegal experienced declining living standards between 1959 and 1984. Inappropriate monetary and fiscal policies in the 1970s led to crises late in the decade that forced the government to seek special help from the International Monetary Fund (IMF) and the World Bank. The short-term objective was to control inflation, the budget, and the balance of payments deficit; the longer-term goal was to restructure the economy to make it competitive in the world market. Despite some false starts, the stabilization program was successful after 1984: the deficits shrank drastically and inflation fell to very low levels. This was associated with a 4 percent annual rate of GDP growth between 1985 and 1988 — the best in two decades.

But the structural problems were more intractable. Although most of Senegal's production costs are high, the key cost in the sectors producing tradeables is labor. The "classical" method of reducing real wages (including civil service salaries) is to devalue the currency and hold subsequent wage increases below the resulting inflation rate. However, Senegal, in company with more than a dozen West African Francophone countries, is a member of the West Africa Monetary Union (WAMU) whose common currency, the CFA Franc, has been held in a fixed relation to the French Franc for over 40 years. Unless Senegal decided to withdraw from WAMU or the latter agreed on a devaluation for the whole bloc, the government would be forced to fight for cost reductions with one hand tied behind its back. Although some progress has been made through wage containment, Senegalese wage levels remain much higher relative to GDP than is the case in non-CFA countries.

REFORM OF THE PARASTATAL SECTOR

Reform of the parastatal sector has been a major objective in both agriculture and industry. It was to be achieved through liquidating or pruning back some agencies, privatizing several industrial companies, and implementing managerial improvements in others. With only minor exceptions, this reform has been a failure. Major reasons for the failure seem to be the inherent difficulty of organizational and administrative reforms; a reluctance to take risks; and shortcomings in the design and implementation of the program by the lead donor, the World Bank. Our attention focused on this third factor.

The Bank made a widely accepted diagnosis of the Public Enterprise Sector (PES) in 1976/1977. This study underlay a decade of reform attempts through two technical assistance (TA) and three structural adjustment loans (SALs). The initial reliance on training and TA at the central monitoring and control level of government was later supplemented by attempts to disengage the state from Public Enterprises (PE), and to improve operations in 30 remaining PEs through the use of *contrats plans* (CPs), an approach much used in France. More often than not, the government was unable to honor the financial commitments promised in CPs in return for the agreed operational improvements. When the government unilaterally redefined its commitments, the Bank accepted the watered down compliance despite the explicit conditionality of its SA agreements.

Privatization did not become a major objective until 1985. The weak progress made subsequently is explained by the same reasons found in most countries which have attempted privatization:

- Government reluctance to sell profitable firms and buyer reluctance to bid for unprofitable ones;
- Government reluctance to value firms to reflect their earning power instead of book value;
- Fear of unemployment; and
- The size of the constituencies that oppose privatization.

No attempt was made to pursue possible approaches to privatization that do not involve outright divestiture — especially subcontracting.

The new SAL IV continues with the old strategy because the Bank has become convinced that the Government of Senegal (GOS) now genuinely accepts the privatization objective and is committed to implementing the financial promises contained in contract plans. But most of the factors that obstructed divestiture-type privatization in the past persist, and it is hard to see why CPs should work any better in the future than they have in the past. A move to indirect privatization strategies and nondivestiture privatization efforts would seem to be more promising, and a lower profile for CPs more realistic.

THE REFORM OF AGRICULTURAL POLICIES

By the late 1970s, Senegal's main donors were agreed that the government's official farm prices were too low to encourage domestic grain production. These prices were uniform throughout the year and everywhere in the country, which meant that no account was taken of storage and transport costs. These and other controls over grain markets were ineffectual, however, and most agricultural marketing moved through parallel or black markets. Donors also agreed that the structure of input prices (mainly for fertilizer and seeds) was poorly designed and costly to government. And a heavy public sector presence discouraged the emergence of a private sector to market inputs and outputs.

The reform effort of the 1980s failed to achieve higher real prices for producers and hence failed to encourage the higher coarse-grain output called for by the national food policy. Little was done to reduce dependence on imported rice and wheat. Some liberalization of domestic agricultural markets was achieved. Price information was improved and geographical restrictions on grain movements were abolished, but a major attempt to privatize rice imports failed completely and was abandoned. Fertilizer subsidies were eliminated from the government budget. The attempt to shrink Rural Development Agencies (RDAs) and build up a rural private sector has been only partially fulfilled.

Many key elements in the announced agricultural strategy were not implemented:

- Real producer prices were not raised to incentive levels;

- The consumer price for rice, the cornerstone of domestic cereals policy, was not raised except briefly to the levels called for by the government's food security plan. So rice has remained more attractive to consumers than millet or maize;

- Relative producer prices, too, were allowed to remain adverse to food security objectives: the politically controlled groundnut price remained more remunerative than millet;

- The attempt to stabilize and support coarse grain prices failed. The interventions of the National Cereals Board (CSA) were minimal and rarely effective; and

- Désengagement de l'état proceeded very slowly.

The Government of Senegal (GOS) does not appear to have embraced the reforms agreed to during negotiations in a meaningful way. And donor conditionality, despite its extent, was powerless to overcome government doubts and hesitancy because of the "soft sanctions" atmosphere that characterized the adjustment effort.

THE SOCIOPOLITICAL DIMENSIONS OF ADJUSTMENT

Six groups are identified in this study as potential winners and losers from the changes that the structural adjustment program sought to introduce. These are civil servants, employers, trade unions and formal-sector wage earners, farmers and farm organizations, the marginalized or informal-sector urban wage earners, and women. Because data is scarce on the latter two groups, attention is focused on the other four. In addition, a review was made of the impact of SA on spending for education and health, the two main human capital sectors.

The two principal losers from SA have been civil servants and formal-sector wage earners, especially the better-paid members of these two groups. Both groups have suffered significant reductions in real incomes as a result of wage constraints required by macroeconomic stabilization measures. Employers did not gain higher returns from the New Industrial Policy but threats stemming from that policy stimulated improvements in employer organization, leading to increased policy influence. As for farmers, the nation's largest occupational group, their absolute incomes have not improved as a result of SA, but they have gained ground relatively because of the declines suffered by urban groups.

The education and health sectors have both experienced falling per capita expenditures since SA began in the late 1970s (health had been experiencing such declines all through the 1970s). Despite these adverse expenditures trends, output indicators in both sectors have improved during the 1980s. In education, enrollment rates rose at primary, secondary, and tertiary levels and student performance indicators either held steady or improved. These educational gains reflect increases in the number of both teachers and schools (especially in the rural primary system). The expansion in teaching staff was made possible by reductions in teachers' real wages and by reassigning 1,300 administrators to classrooms. The introduction of mixed-grade classes and double shifts in primary schools also made funds stretch farther.

In health, capital expenditures grew during the 1980s while recurrent expenditures fell. The number of public doctors and nurses fell 30 percent during the decade, although the number of rural nurses increased by over 40 percent. The main contributor to improved public health indicators appears to have been the increased effectiveness of preventive health expenditures (vaccinations, antimalarial activities, and MCH care), much of it financed from abroad.

Senegal's experience sheds useful light on the debate about the social costs of adjustment. It does not appear that the public expenditure cuts of the 1980s fell especially heavily on the poor. Health expenditures fell most sharply on this group, but rural and preventive services were relatively protected and rising receipts from user fees combined with foreign assistance seem to have filled resource gaps. In education, particularly, but also in health, much of the policy response to austerity was to raise the efficiency of resource use, and to use available resources more equitably — in other words, in ways that frequently benefitted the poor. It has been the bureaucracy, widely portrayed as the defender of its own interests and those of the urban elites who are its presumed clients, that has lost the most from the adjustment reforms.

The small AEPRP program of general budgetary support (1986-1989) was intended to reinforce the industrial reforms being sponsored by the World Bank. As with ESF funds, counterpart funds were earmarked to pay down the large and long-overdue bank debts of the public sector.

INDUSTRY

Senegal's large-scale or formal industry sector, while the largest in Francophone West Africa, employs only about 30,000 people or 1 percent of the labor force. For the past decade the sector has been stagnant and unprofitable, with little new investment. Costs are high and productivity low, partly as a result of many years of overprotection. Structural adjustment aimed to stimulate cost-reducing responses by removing the overprotection and by shrinking the PES and improving its efficiency.

Beginning in 1986, tariffs were lowered, quantitative restrictions (QRs) were ended, most price controls were removed, a new investment code was adopted, the export subsidy scheme was revised, and a new financing facility was prepared (working through the commercial banks) in the hope of stimulating cost-reducing investments. Studies were begun to see what could be done to reduce the costs, and government subsidies, of the dozen or so large firms that had negotiated *conventions spéciales* with the government. The latter also promised to look into possibilities for lowering the costs of public utility and infrastructure charges. A consultant study in late 1986 estimated that closures and unemployment resulting from deprotection would be modest provided the government were able to introduce a set of cost-reducing "accompanying measures."

By late 1989 (three years into the reform program), there was little evidence that the program was working. Anxiety about the sector's future was widespread. The government had not been able to do anything about the hoped-for accompanying measures. The new financing facility took much longer than expected to be set up and did not attract much interest from either the commercial banks or from industry. People had trouble deciding if the new investment code was better or worse than the one it replaced. Nothing was done to breathe life into two ineffectual government export-financing agencies. Trade union influence blocked the one labor market reform employers really wanted. Tariff levels were reduced between 1986 and 1988 and the structure made more rational; but by mid-1989 a combination of effective lobbying by the employers' federation and government worry over rising plant closures led to a rescinding of much of the tariff reduction. By the end of 1989, average tariff levels were only marginally lower than before the reform began. The two policy areas in which deprotection measures continued in full force were the elimination of QRs and the granting of many more foreign trade licenses. By mid-1989 several industries were complaining bitterly about dumping, a practice that could not be controlled through tariffs. The only industrial sector that benefitted from three years of deprotection was the small-scale informal sector, for which increased imports (dumped or not) meant lower input prices.

Senegal's formal industry sector is inherently high cost and would face a precarious future with or without a reform effort to shock it down to more competitive cost levels. It was impossible to tell if the difficulties faced by so many firms were the result of deprotection or would have occurred anyway. The French, who know the sector best, have been critical of the rapid pace and extent of deprotection, and this view is probably justified. But a continued reform effort is needed — one that includes more studies to identify viable industries and cost-reduction investment possibilities, easier access to softer funds to finance cost-reducing investments, more attention to and assistance for severance benefits, and a direct attack on dumping (a much more serious problem than anyone had foreseen).

CONCLUSIONS AND RECOMMENDATIONS

The central conclusion is rather somber: in spite of the unprecedented volume of analysis and studies, the extensive policy dialogue, and the large amount of aid money tied to policy reform, Senegal did not do much adjusting during the 1980s.

We must recognize at the outset some undeniable achievements:

- Stabilization measures were firmly applied. Macroeconomic performance improved strongly with budget and balance of payments deficits drastically cut and inflation brought under effective control. Government spending as a share of GDP fell by almost a third between the early and late 1980s, though there was much off-budget spending;

- Several supply-side adjustment measures were successfully introduced. Deregulation occurred in many markets, price controls were eliminated on most consumer goods and subsidies ended on most inputs. Parallel markets in coarse grains were legalized and the old system of government price setting for cereals was abandoned. Agricultural parastatals were cut back and at least some are better managed. Free distribution of groundnut seed has ceased and farmers are now responsible for their own seed. Over the decade, farm prices rose more than urban wages.

  The industrial sector received a needed competitive shock, entry into importing was made much easier, and the need for new investment received much public attention. Much more is now known about the public enterprise sector, its problems, and the difficulties of reducing them, while the climate for private sector activities has improved and some state shrinkage has occurred. Other areas of improvement, not covered in this text, include better public investment programming and a start at rescuing the banking sector;

- The relative position of the poor seems to have been protected: farm prices did better than urban wage rates; the wage rates of lower-paid, urban formal-sector workers fell less than those of skilled workers; the urban bias of economic policy seems to have been reversed; and the education and health status of the population improved, especially in rural areas; and

- Never before in Senegal's history was economic policy so extensively and widely discussed; never have policy questions received so much study, especially high quality study, as during the 1980s.

These are important achievements, but do they add up to the kind of structural adjustments that the sponsors of reform wanted and expected? Admittedly, it is not easy to define structural adjustment. Most observers define it in terms of supply responses that show up in faster GDP growth, expanding exports, and higher investment rates. The team regards such output-related measures (which may be temporary and ephemeral, or caused by exogenous factors such as rainfall or changes in world prices) as only partial indicators that the structure of the economy has changed. More fundamental, but often cloudier, indicators of structural change are shifts in asset distribution, major institutional changes, or the development of new attitudes among local officials and others. Eventually, such fundamental changes should be reflected in the kinds of economic policies and institutions that, adopted and implemented with conviction, would indeed show up in higher output, expanding exports, and so forth. The team is of course looking at cause-and-effect relationships — structural adjustment must embrace both.

There are no convincing output indications that the economy has been moved onto a higher growth curve. Nor is there much evidence of fundamental change in institutional arrangements that imply faster growth in the future. There is little increased flexibility in the labor market; the state's role has not been reduced much; improved management of the public sector remains a goal for the future, as does greater attention to land tenure (an important but neglected issue in the Fleuve region); there has been little increase in R&D capacity in agriculture, or action to resolve population growth; and reform in the troubled financial sector remains nascent. As for the spread of "learning effects" that might lead to deeper, wider acceptance of reform policies and their implementation, the decade has ended with many intellectuals and officials skeptical that free market policies are suitable for Senegal. The events within the Communist world may do more to change this than all the debate over adjustment during the past decade.

How then to explain the limited impact and weak implementation of the reform effort? Three sets of reasons are commonly advanced: external factors (such as drought and price shocks) that undermine reforms; internal political and social factors that hobble the effort (such as vested interests, bureaucratic foot-dragging, lack of political will, widespread reservations about the appropriateness of agreed reforms); and negative influences stemming from a strong donor presence. Our analysis concentrates on this third factor, the role of donors and their aid. This is the only one of the three sets of influences outsiders control directly and which they might change if persuaded that changes could improve the reform effort.

In examining the effect of the donor presence, we underlined three factors in this report. First is the "ownership" factor. Many of the responsible Senegalese officials have never viewed the policy and institutional reforms as truly their own. This is related to the fact that most of the political class remains unconvinced about the suitability of many key elements in the reform agenda, or about the proposed pace of reform, despite a general acceptance of the need for liberalization. Second, donor capacity to invest and steer large and complex series of reforms is limited, which led to some missteps in reform design and implementation. And third, the large inflow of aid money in the 1980s created a no-sanctions atmosphere that eroded political will to reform.

Senegal has been extremely successful in securing foreign assistance. With 1.5 percent of Sub-Saharan Africa's population, Senegal has received 4.8 percent of official development assistance (1987). From 1980-1987, aid commitments grew by 18 percent a year, more than twice as fast as total overseas development assistance. In 1987, Senegal received over US $100 per person, equal to about 20 percent of GDP and 4-5 times the average for Africa. Virtually all of Senegal's public investment, as well as a significant share of recurrent costs, is financed by external resources. In 1987, aid disbursements were US $642 million. This compares with total government domestic revenues of about $750 million and export earnings of about the same amount. So in that (not unrepresentative) year, donors provided almost half the government's total resources and half the country's foreign exchange. In the team's view, this scale of aid, and the forms in which it has been provided, have impaired the adjustment effort.

The chief problem is that aid which is too readily available has weakened the key element of political responsibility — the need to make choices. The large number of donors confounds the clear transmission of policy messages to the Senegalese side; changing minds becomes more difficult when everyone knows that the analytic foundations of a policy are not universally accepted.

Coupled with these communication and "learning" difficulties are strong internal donor pressures to maintain high aid levels to a particularly poor, democratic country in an economically troubled region. The result, despite all the formal conditionality, is a no-sanctions environment, a generalized soft-budget constraint, which gives the GOS access to aid resources almost entirely without regard to its implementation performance. The latter fact has surely played a major role in shifting the GOS cost-benefit calculus in favor of weak or pro forma implementation. The soft-budget constraint has weakened political will by reducing the expected costs of nonimplementation. It becomes attractive to postpone needed adjustments.

What are the implications of the above analysis for future donor behavior? We suggest three:

- Sharp cutbacks in aid would be neither desirable nor feasible. But strategies for the 1990s should stress less aid, not more;

- The form of policy-based lending must be changed, mainly by eliminating the past emphasis on explicit conditionality. The latter has dominated the dialogue, reducing the opportunity for uncontentious and open exchange of ideas and joint problem-solving. Heavy conditionality is incompatible with local ownership of the adjustment program; and

- Even without explicit conditionality, there seems to be no way to avoid serious negative effects when policy reforms are tied explicitly to lending. The two need to be separated, with the reform dialogue proceeding largely independent of lending operations — perhaps not completely, but much more so than in the past. One way of doing this is to reduce the proportion of policy lending in total assistance. Less fungible forms of resource transfer should receive greater attention — for example, more project assistance; more off-budget arrangements such as on-lending to private sectors; more use of regional institutions (for example, in agricultural research); and scholarships, research grants, and training awards for use in other countries.

CHAPTER ONE

MACROECONOMIC POLICIES

I. INTRODUCTION

From 1959 to 1984, per capita income declined in Senegal while it increased in most other African countries not affected by extended civil unrest. Since 1984, some progress has been reported, but it is not yet clear that this improvement represents a turning point in the Senegalese economy. Clarifying this issue is of particular interest, because Senegal has undertaken a decade-long series of adjustment programs supported by the International Monetary Fund (IMF) and the World Bank (Bank), and bilateral donors including the United States Agency for International Development (USAID), the French Caisse Centrale de Coopération Economique (CCCE), and the Swiss Government. Alongside this adjustment assistance, the Government of Senegal (GOS) has received substantial aid in other forms, partly because it has undertaken reforms in its economic policies. Although its population was only 1.5 percent of the population in Sub-Saharan Africa, Senegal received 4.8 percent of total net official assistance to the region in 1987.

The poor long-term economic performance of Senegal can be attributed partly to poor rains and unfavorable terms of trade. But droughts did not affect Senegal more adversely than many other Sahelian countries and the deterioration in the terms of trade was not more pronounced for Senegal than for most other African countries.

The conditions under which Senegal became independent were, however, quite different from those of other African countries. Before independence, Dakar was the administrative capital of French-speaking West Africa. After independence, it became the capital of a small country with limited natural resources. This change provided Senegal with both assets and liabilities in relation to other African countries. On the asset side, Senegal inherited an excellent location for its capital, a good infrastructure, and a well-educated elite. On the liability side, Senegal inherited a bureaucracy much too large for its needs and an elite accustomed to living standards well above those found in most of the rest of Africa.

This kind of change has been described as a "Vienna problem." In the Senegalese case, the resulting liabilities seem to have been heavier than the assets. But the example of Austria itself shows that the balance need not turn out to be negative. After a glorious past, Vienna became the capital of a small country with a population the size of Senegal. After regaining its independence in 1955, Austria did very well. Per capita GDP growth averaged 3 percent a year from 1965 to 1989, which significantly exceeds the 2.3 percent average recorded for all Organization for Economic Cooperation and Development (OECD) countries. In 1989, Austria ranked between the Netherlands and France in terms of per capita income. The parallel between Vienna and Dakar should not be pushed too far, but it does suggest that shrinkage of a political and economic unit need not impede development.

II. FROM INDEPENDENCE TO ADJUSTMENT

Between 1959 and 1966, economic growth was relatively satisfactory, with per capita GDP increasing by about 1 percent a year. After 1966, Senegal lost the benefit of guaranteed prices for its main export crops and the economic situation deteriorated progressively. This deterioration was not, however, due mainly to the unfavorable environment; it resulted largely from inappropriate policies.

With the boom in the export prices of groundnuts and phosphates, Senegal's terms of trade improved 16 percent from 1972 to 1974 (Table 1.1). This gain proved, however, to be a curse rather than a blessing. Senegal did not sterilize its windfall export gain; on the contrary, it took advantage of its temporary credit-worthiness to borrow from commercial banks and followed highly expansionary policies. Between 1972 and 1975, domestic credit surged by 131 percent, minimum wages were raised by 112 percent, money supply doubled, and the cost of living index rose 71 percent (Table 1.2).

The commodity boom was short-lived. By 1978, Senegal's terms of trade were 9 percent lower than in 1972. But, during this six-year period, the cost of living had increased in Senegal by 13 percent more than in France, while Senegal's terms of trade had deteriorated by 5 percent in relation to those of France. With a fixed parity between the French franc and the CFA franc (CFAF), productivity gains would have been required to preserve Senegal's competitiveness. This did not occur, because the large investments made in the 1970s had limited impact on growth; the incremental capital output ratio averaged 17 in the second half of the 1970s.

Because of a drought in 1978, another in 1980, a 37-percent fall in the export price of groundnuts from 1978 to 1980, the financial collapse of the Office National de Coopération et d'Assistance pour le Développement (ONCAD), and a sharp increase in the external debt burden, Senegal became bankrupt.[1] At about that time, President Senghor decided to retire and asked his Prime Minister to replace him. But the new President, Aboud Diouf, had to consolidate his power through popular elections before taking politically sensitive measures; for this and other reasons the implementation of a strong adjustment program was delayed until mid-1983.

The period 1979 through 1982 was one of crisis management. To preserve the social order, the government had to find the money to pay its civil servants. It was unable to borrow from commercial markets; it could not print money either, because Senegal was a member of the Western African Monetary Union (WAMU). The authorities were concerned with immediate cash problems and more preoccupied with convincing friendly countries (notably Arab countries that were very liquid at the time) to extend them grants or concessional loans than with discussing genuine structural reforms. It is, therefore, not surprising that the first IMF and Bank programs were not very successful.

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[1] ONCAD, a public enterprise established to provide rural development, made extensive use of crop credits that could not be repaid. By the late 1970s, ONCAD had accumulated a loss of CFAF 64 billion, equivalent to more than half of yearly government revenues. The ONCAD debt was assumed by the government and rescheduled by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the first time in 1982 and the second time in 1989, for an amount approximately equivalent to the initial debt.

TABLE 1.1

POPULATION, GNP PER CAPITA, AND TERMS OF TRADE, 1968-1989

Year	Population (thousands)	GNP per capita (CFAF 1000 at 1980 prices)	Terms of Trade (index 1980=100)
1968	4,217	123.5	112.4
1969	4,315	112.0	124.8
1970	4,415	117.0	113.6
1971	4,519	114.7	105.8
1972	4,625	118.9	110.2
1973	4,734	109.7	102.6
1974	4,846	110.2	127.6
1975	4,960	116.5	118.4
1976	5,099	127.2	114.2
1977	5,244	116.6	113.0
1978	5,394	105.8	100.5
1979	5,548	113.3	100.4
1980	5,706	106.3	100.0
1981	5,869	101.6	102.4
1982	6,036	113.5	96.5
1983	6,208	112.8	98.2
1984	6,385	103.8	102.2
1985	6,567	104.9	100.1
1986	6,770	105.7	88.3
1987	6,969	109.1	94.8
1988	7,154	107.0	96.4
1989	7,361	108.5	98.0
1968-72		117.2	113.4
1978-82		108.1	100.0
1985-89		107.0	95.5
Percentage change			
78-82/68-72		-7.8	-13.4
85-89/78-82		-1.0	-4.5
85-89/68-72		-9.1	-15.8

Source: World Bank, *World Tables*.

TABLE 1.2

MONEY, DOMESTIC CREDIT, COST OF LIVING, NOMINAL AND REAL WAGES 1970-1989

Year	Money (M2)	Domestic Credit	Cost of Living (CPI)	Minimum Wage (SMIG)	Civil Servants Monthly Wage deflated	(CFAF thousands)
	(CFAF billions at year end)		<-------Index 1980=100-------->			
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970	37.3	37.5	38.2	37.8	107.9	46.0
1971	38.0	39.9	39.7	37.8	105.6	46.8
1972	42.8	47.2	42.2	37.8	103.8	48.9
1973	52.4	65.7	46.9	37.8	99.9	52.3
1974	77.3	90.7	54.7	43.5	102.4	62.5
1975	86.1	108.8	72.1	80.0	83.5	67.2
1976	113.6	137.0	72.8	80.0	--	--
1977	131.0	162.7	81.1	80.0	73.0	66.1
1978	158.8	213.3	83.8	80.0	89.6	77.6
1979	161.1	250.6	92.0	80.0	90.8	100.3
1980	177.7	293.6	100.0	100.0	100.0	111.6
1981	216.9	368.9	105.9	105.0	93.2	110.2
1982	262.3	441.0	124.3	113.6	84.0	116.5
1983	273.0	477.1	138.7	113.6	79.8	123.6
1984	287.1	489.9	155.1	130.8	76.6	132.6
1985	300.1	530.8	175.2	137.3	69.2	135.4
1986	333.7	535.7	186.4	137.3	70.5	146.6
1987	342.2	538.9	178.4	137.3	76.3	151.9
1988	334.5	593.6	178.4	137.3	80.3	156.9
1989	371.3	576.6	175.0	149.5	85.5	167.7

Source: Columns 2 through 4 are from *International Financial Statistics*, IMF, Washington, D.C. Column 5 is from national statistics. Column 7 is the Public Wage Bill paid by the Central Government Budget divided by the number of civil servants. Column 6 is obtained by deflating column 7 by the CPI shown in column 4. Columns 6 and 7 refer to fiscal years, with split year 1970/71 shown under 1970 calendar year. Figures for 1989 are estimates.

Senegal obtained its first structural adjustment credit with the World Bank in 1980. However, the conditions required for the release of the second tranche were not satisfied and this second tranche was finally canceled, which happens rarely with the World Bank. After a first credit tranche program (which did not carry substantial conditionality), a program supported by the Extended Fund Facility (EFF) was approved by the IMF Executive Board in August 1980. The only performance criteria satisfied for the EFF program were those set for end-September 1980, and the three-year arrangement was canceled after a few months. By early 1981, Senegal had acquired a solid rep[illegible]reliability in the Fund, and its reputation in the Bank was not much better.

As the financial situation continued to deteriorate and the arrears (both internal and external) continued to accumulate, Senegal's main creditors — France, in particular — pressured the authorities to renew their dialogue with the Fund. The first successful stand-by arrangement covered fiscal year 1981/82. In spite of considerable difficulties, Senegal succeeded in making its four quarterly purchases and, even, to negotiate another stand-by covering fiscal year 1982/83. But, with the approach of the March 1983 elections, political pressures became so strong that the arrangement collapsed before the end of 1982 and Senegal made a single purchase under its second stand-by.

Both the budget deficit and the external current account deficit reached record levels in 1982/83. The dialogue with the Fund was nevertheless maintained. The composition of the Senegalese economic team changed and agreement on major economic measures was reached with the Fund in June 1983. After these measures were announced in a message of President Diouf to the nation on August 13, 1983, a new stand-by arrangement was approved by the IMF Board. This program — which was successfully implemented — has been followed by an uninterrupted series of programs supported by the Fund.

The first meeting of the Consultative Group held in 1984 was the prelude to a second Structural Adjustment Loan (SAL) with the Bank. The second meeting of the Consultative Group was also followed by a third SAL which, like the second one, was fully disbursed. The second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) was approved by the Fund in December 1989 and a fourth SAL by the Bank in February 1990. After having been considered as an unreliable partner in 1980, Senegal was referred to in 1987 as the adjustment model.

III. STABILIZATION RESULTS

The main stabilization objectives of the Fund programs were achieved within a five-year period. From 1982/83 to 1987/88, the budgetary deficit excluding grants fell from 8.8 percent of GDP to 2.6 percent, the external current account deficit from 18.4 percent of GDP to 10.2 percent, and the annual rate of inflation from 9 percent to 2.5 percent (Figures 1.1-1.4, and Table 1.3). The decline in government expenditure as a share of GDP was remarkable: it fell from 32 percent in FY 1981 to 21 percent in FY 1989.

A major contribution of IMF programs was to bring transparency to budgetary accounts. Government financial operations were consolidated in an orderly manner and presented in a table which became known to donors as the TOFE, the French acronym for Tableau des Opérations Financières de l'Etat. This new transparency facilitated the task of the Minister of Finance in his negotiating both at home with politicians and abroad with donors asked for additional contributions to balance the TOFE.

TABLE 1.3

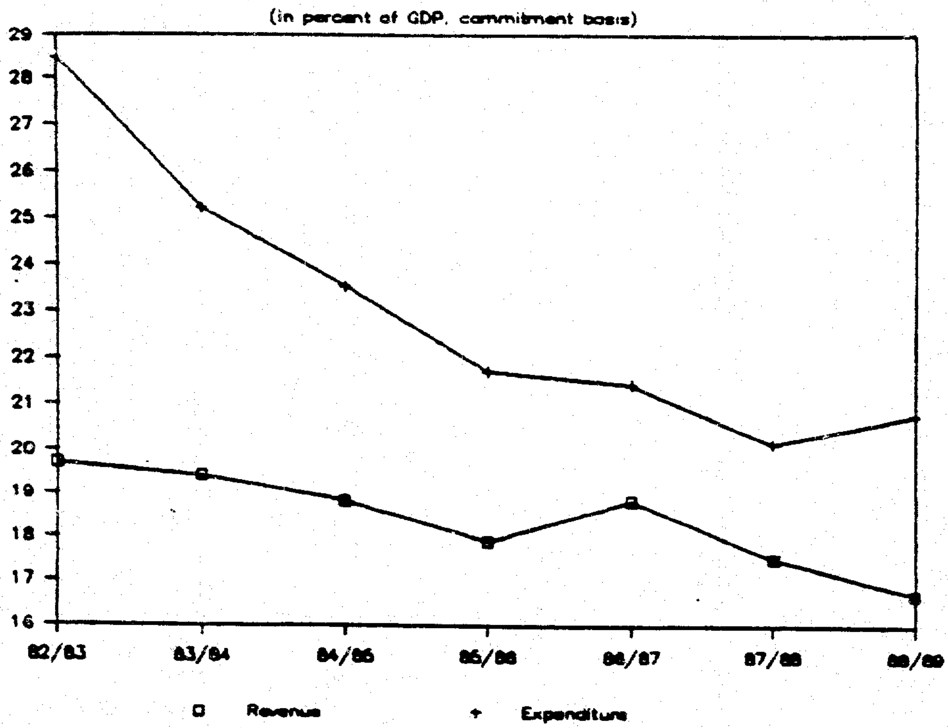
SELECTED MACROECONOMIC INDICATORS

	82/83	83/84	84/85	85/86	86/87	87/88	88/89
	Annual Change in Percent						
Real GDP	8.9	-1.0	-0.4	4.2	4.2	4.4	0.6
Real GDP per capita	6.0	-3.9	-3.3	1.3	1.3	1.5	-2.3
CPI	14.5	11.7	12.5	9.4	0.4	-2.6	-1.9
GDP deflator	9.0	10.9	11.3	8.3	5.0	2.5	1.9
Net domestic credit	29.1	8.3	4.8	14.3	10.7	9.2	0.1
	In Percent of GDP						
Government expenditure on a commitment basis	28.5	25.2	23.5	21.7	21.4	20.1	20.7
Government revenues	19.7	19.4	18.8	17.9	18.8	17.5	16.7
Fiscal deficit on a commitment basis							
Excluding grants	8.8	5.8	4.6	3.9	2.6	2.5	4.0
Including grants	8.2	4.6	3.5	2.3	1.5	1.2	2.1
External current account deficit excluding official grants	18.4	17.3	18.7	15.6	11.3	10.2	9.6

Source: International Monetary Fund.

FIGURE 1.1. Fiscal Performance

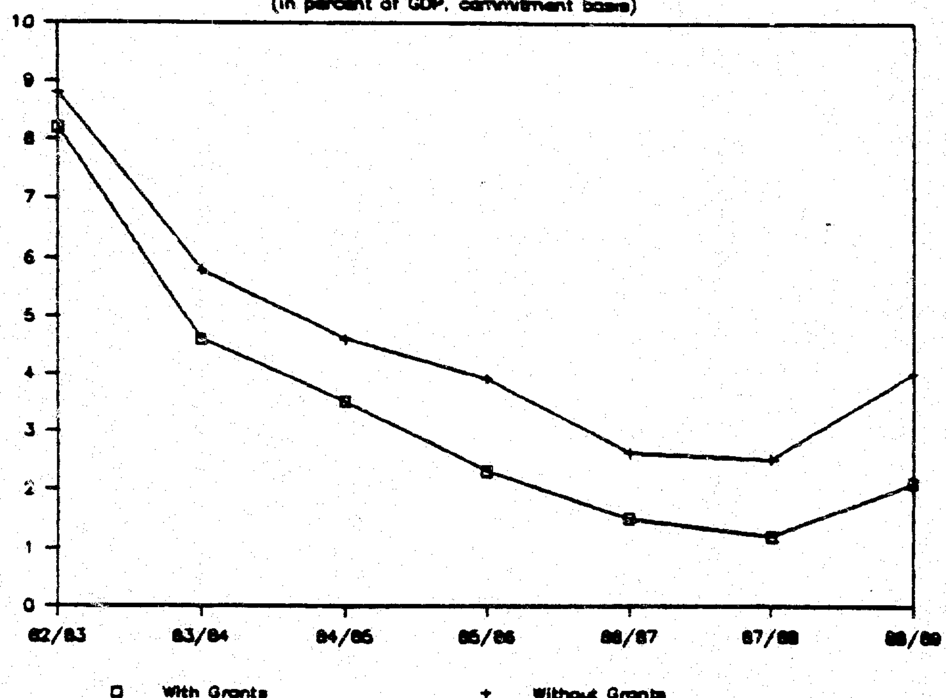
(in percent of GDP, commitment basis)



Source: Table 1.3.

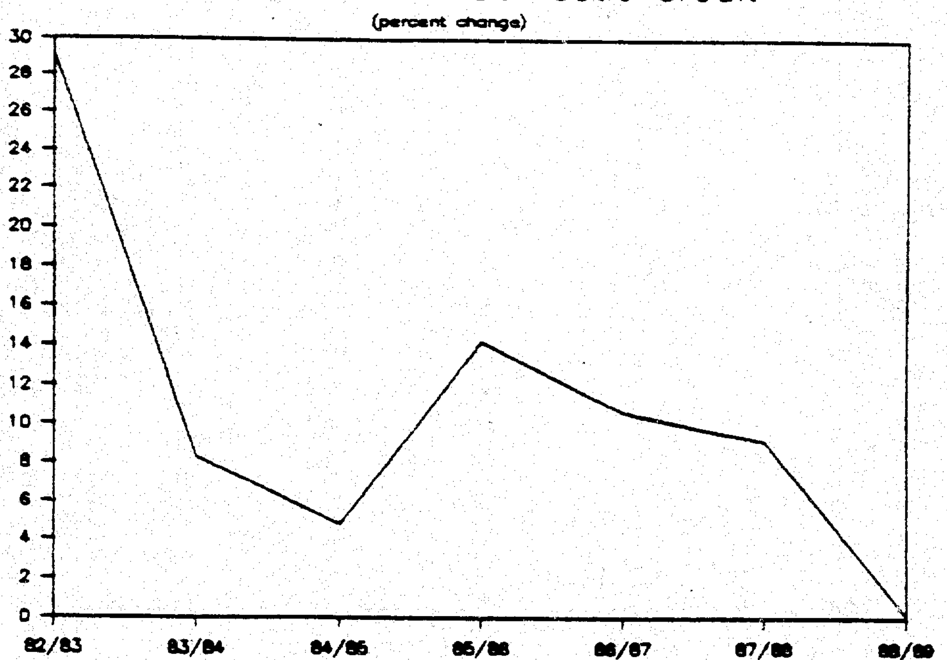
FIGURE 1.2. Fiscal Deficit

(in percent of GDP, commitment basis)



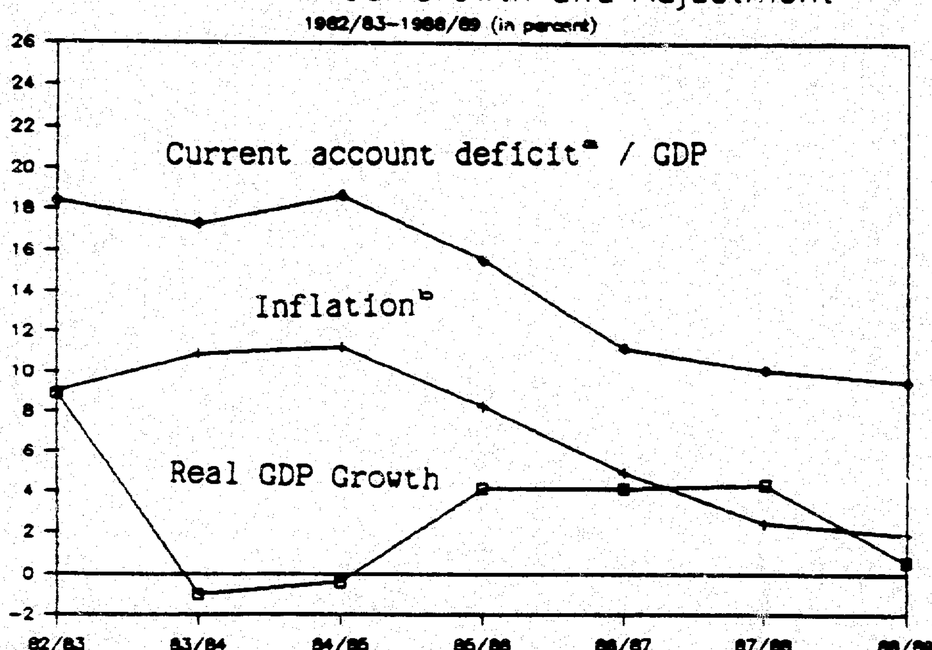
Source: Table 1.3.

FIGURE 1.3. Net Domestic Credit



Source: Table 1.3.

FIGURE 1.4. Real Growth and Adjustment



Source: Table 1.3.

[a] Excluding official grants.

[b] As measured by the GDP deflator.

Instead of trying to play one donor against another, the Senegalese authorities became quite open. They associated the donor community with the review of the public investment program and with the discussions of economic policies. The main donors participated in a seminar on the new agricultural policy chaired by President Diouf in February 1984. By maintaining an open dialogue with the donor community, Senegal succeeded in attracting a high level of external assistance.

The credibility of the adjustment program was linked to a reduction in the budget deficit and, in particular, to a reduction in the growth of the central government wage bill, which was absorbing 62 percent of total government revenue in 1981/82. At the time of independence, Senegal had inherited an expensive bureaucracy whic.. became even more expensive during the 1970s. From 1973/74 (the year of the commodity boom) to 1981/82, the government wage bill increased by 16 percent a year and the number of civil servants by 5.7 percent a year, on average. To break this trend, the government had to announce that it could no longer be held responsible for providing employment to all new graduates, and recruitment in public service schools was sharply curtailed.

Under the new policy, the size of the civil service was held to 68,000 after 1983/84. The yearly increase in the nominal wage bill was reduced from 16 percent to 5 percent. From 62 percent in 1981/82, the share of the wage bill declined to about half of total government revenues. Further progress is expected under the 1990 adjustment loan, SAL IV, and donors have already pledged US$ 65 million to finance attractive incentive packages for voluntary retirements. The stated objective is to reduce the size of the civil service to 62,000 by 1991/92 and to freeze, if not reduce, the nominal wage bill during the next three years.

The sharp decline in inflation during the last five years was due not only to the fall of world inflation (notably, in France); it also reflected basic changes in Senegal's policies. The annual growth of domestic credit fell from an average of 25 percent between 1972 and 1982, to under 5 percent between 1982 and 1988. Moreover, the Central Bank for Western African (BCEAO) tightened its policies in 1989 by eliminating the preferential discount rate and raising the normal discount rate to 10.5 percent per year.

The deflationary credit policy and improved supervision of the primary banks revealed the critical state of the domestic banking system. At the end of 1988, nonperforming loans accounted for about one-third of the net domestic assets of the banking system and more than half of the banks were technically bankrupt. Some CFAF 200 billion (equivalent to 80 percent of annual government revenue) were needed in the form of external assistance and consolidation by the BCEAO to restructure the banking system. Because most of this amount is ultimately a Treasury liability, the genuine reduction in the fiscal deficit was not as spectacular as suggested by the official statistics referred to earlier.

IV. GROWTH AND COMPETITIVENESS

While the stabilization objectives of the adjustment programs were satisfied to a large extent, the growth objectives have not yet been reached. During the 1983/84 program, real GDP per capita fell by almost 4 percent, but the fall was mainly attributable to a severe drought. With more favorable rainfalls in the following years, real per capita GDP increased by 1.4 percent a year from 1984/85 to 1987/88, when it almost recovered the 1982-1983 predrought level (Table 1.3). This improvement was highlighted in an article titled "Senegal Achieves Adjustment with Growth," published in the May 1988 issue of the *IMF Survey*, but the improvement was temporary.

As will be shown in the following chapters, there are few clear signs that Senegal has moved onto a new, higher growth path. Despite unusually strong increases in food production at the end of the decade, rainfall continues to be the main determinant of output. The restructuring of the public enterprise sector has proceeded very slowly and the tourism industry has been stagnating. A substantial liberalization of the industrial sector was launched in 1986 with the elimination of quota restrictions on imports and a reduction in effective protection. The decline in domestic manufacturing output was, however, greater than anticipated and the government had to partly reverse its liberalization policy by reestablishing higher import charges and other restrictions in 1989.

The Discrepancy between Domestic and International Prices

With imports accounting for one-fourth of GDP, the Senegalese economy is heavily dependent on international trade, but, for most tradeable goods, production costs in Senegal substantially exceed world prices. To cover the large discrepancy between domestic and international prices, Senegal had to protect its domestic production by tariff and nontariff barriers and to subsidize many of its exports — even its traditional exports such as groundnut oil and fish. This has created problems with The Gambia where the discrepancy between domestic and world prices was much lower. In 1987, the producer price of groundnuts was 50 percent higher in Senegal than in The Gambia, the consumer price of rice was 90 percent higher, and the price of sugar 20 percent higher. It, therefore, became profitable for Gambian traders to import rice and sugar for smuggling into Senegal.

According to some observers, this traffic became so large that the profits it generated were sufficient to finance all the rice and sugar consumed in Gambia. In addition, Gambian growers were able to sell a good part of their groundnut crop to Senegal, which, after transforming it into oil, had to export the groundnut oil at a substantial loss. This large smuggling operation was a key element in the 1988 decision to reduce the producer price of groundnuts by 22 percent and to reduce the consumer price of imported rice by 19 percent.

An excessive discrepancy between domestic and international prices may be costly not only for the Treasury, but may also lead to a misallocation of resources. In particular, this discrepancy may result in negative rates of effective protection for new export-oriented industries. To correct this bias and to promote nontraditional exports, Senegal established an export subsidy scheme with the support of the World Bank. The administration of this scheme has, however, proved cumbersome. The level of the subsidy had to be related to the value added by the exporting enterprise, which is not easy for small diversified enterprises to determine and is difficult for the administration to verify. Moreover, entrepreneurs were not keen to invest in new ventures without knowing in advance the amount of the subsidy and without being reasonably confident of timely payments. In practice, the subsidies disbursed to promote nontraditional exports have been modest and their impact on exports limited. The export subsidy scheme still exists, but according to many observers, expanding it would be counterproductive.

Manufacturing costs in Senegal are high for a variety of reasons, which can be illustrated by two case studies conducted by Barbier in 1987 on the canning of tuna fish and the production of cement.[2]

In 1976, Senegal was the second largest exporter of canned tuna a t accounted for 12 percent of world exports. Ten years later, Senegal accounted for only 6 percent of world exports and had fallen to fifth place. Thailand, which did not export canned tuna in 1976, had become the largest exporter by 1986 with 44 percent of world exports. In all countries of the European Community except France, exports from Senegal had been virtually replaced by those from Thailand, even though Thai enterprises had to overcome two sizable handicaps. First, Senegalese enterprises received an export subsidy equivalent to 40 percent of value added (or about 10 percent of the FOB value), while the Thai enterprises did not. Second, exports from Senegal could enter the Community duty free, while exports from Thailand were charged a 24 percent duty. Even though per capita GNP was 50 percent higher in Thailand than in Senegal, labor costs per kilogram of tuna processed were half in Thailand of what they were in Senegal. Although Europe is closer to Dakar than to Bangkok, the cost of shipment from Le Havre (France) to Dakar was 70 percent higher than that to Bangkok; partly for this reason, a number of inputs were more expensive in Senegal than in Thailand. Finally, Thai enterprises were able to reduce their production cost of tuna for human consumption by canning leftover trimmings and exporting them as cat food to the United States.

By comparing two cement plants with the same capacity and similar technology, Barbier found that the cost of production per ton was almost twice as high in Senegal as in France for two main reasons.[3] First, fixed costs per ton were much greater in Senegal because the Senegalese plant, which was more recent, had to bear higher depreciation charges and because the Senegalese plant was used at only 30 percent of capacity while the French one was used at 70 percent. Second, the costs of fuel and electricity were five times higher in Senegal than in France. Even though labor accounted for only 10 percent of total costs, it is worth noting that labor cost per ton of cement was 40 percent higher in the Senegalese than in the French plant.

These two case studies suggest that the high manufacturing costs result from the interaction of several factors. Capacity utilization is low because the lack of competitiveness does not allow the industry to expand. The cost of energy is high because taxes on petroleum products are a vital source of revenue for the Treasury, which needs the tax proceeds to pay the civil servants. These factors also affect labor costs, by raising the cost of living and in other ways. But the issue of labor costs reaches far deeper.

Labor Costs in the Modern Sector

In 1986, the narrowly defined modern sector of Senegal consisted of 131,000 permanent employees, of whom 68,000 were in public administration, 60,000 in nonfinancial enterprises, and 3,000

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[2] J.P. Barbier, "Reflections sur la Competitivité, Comparaison Afrique-Asie," Caisse Centrale de Coopération Economique, May 1989.

[3] The production cost in the French factory was about twice the spot price on the world market.

in financial enterprises (Table 1.4).[4] These 131,000 wage earners accounted for about 4 percent of the Senegalese labor force and their combined wage bill accounted for 17 percent of Senegal's GDP. The average monthly cost per employee (salary and charges paid by the employer) was equal to CFAF 148,000, equivalent to about US$ 500. The average cost per employee was the same for the civil service as for the rest of the modern sector. The lowest cost was for construction (CFAF 100,000) and the highest for banking (CFAF 302,000). The cost in the manufacturing industry (CFAF 136,000) was slightly below the overall average.

Labor costs in the manufacturing sector were much higher in Senegal than in non-CFA countries with comparable income levels. In 1986, labor cost in Senegal was 10 percent lower than in Côte d'Ivoire, but 60 percent higher than in Malaysia and 370 percent higher than in Indonesia (Table 1.5). The cost of a manufacturing worker was 8.7 times the GDP per capita in Senegal. It was only 2 times as high for the average GDP per capita of the six non-CFA developing countries, and 1.7 times for the United States.

An international comparison of civil servant salaries leads to similar results. In 1987, the ratio of the average cost of a civil servant to per capita GDP was about the same in Senegal as in eight other CFA oil importing countries,[5] but three times higher than in six African non-CFA countries and in Malaysia, and almost seven times higher than in France and the United States (Table 1.6).

These findings are consistent with those provided by French banks with subsidiaries in Africa. According to these banks, the cost of labor in the banking sector was about the same in Senegal as in Côte d'Ivoire and Cameroon, but about twice as high as in Morocco and three times as high as in Nigeria. All these data indicate that, in Senegal (as in most other CFA countries), labor costs in the modern sector are considerably higher than in non-CFA developing countries with comparable levels of per capita GDP. There is an explanation for this discrepancy.

In Senegal, as in the rest of Africa, wages in the modern sector are influenced largely by the wages paid by the government, which is the major employer. At the time of independence, the wage structure of Senegalese civil servants was set at levels somewhat comparable to those of the French colonial civil service — that is to say, much above the average per capita income of Senegal. Since independence, real wages of public servants have been eroded by inflation. They fell by 36 percent between 1970 and 1985, when inflation was relatively high in Senegal, but increased somewhat from 1985 to 1989, when inflation was low (Table 1.2).

In the African countries that did not belong to the franc area, wages of public servants were also set at levels much above the average per capita income. But real wages of civil servants have been

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[4] The modern sector, as defined in the national accounts of Senegal, includes: (i) the private and public nonfinancial enterprises which provide detailed accounts in accordance with the "Plan Comptable Sénégalais" and are taxed on the profits calculated on the basis of this accounting framework; (ii) the financial enterprises (banks and insurance); and (iii) the public servants paid by the Central Government.

[5] The three oil exporting countries (Cameroon, Congo, and Gabon) have been excluded, as well as Equatorial Guinea, which joined the CFA area only in 1986.

TABLE 1.4

LABOR COST AND EMPLOYMENT IN THE MODERN SECTOR OF SENEGAL, 1986 /a

	Average Labor Cost (CFAF thousands per month) (1)	Employment (thousands) (2)	Total Labor Cost (CFAF billions per year) (3) = 0,012(1)(2)
Civil Service /b	147	68	120
Non-financial Enterprises /c	171	60	103
Construction	(100)	(4)	(5)
Manufacturing	(136)	(34)	(56)
Services	(142)	(15)	(25)
Commerce	(200)	(7)	(17)
Financial Enterprises	288	3	11
Insurance	(216)	(0.5)	(1.2)
Banking	(302)	(2.7)	(9.7)
TOTAL	148	131	234

/a Including labor charges paid employees (social security). Excluding non-permanent employees (23,000 are employed in non-financial enterprises), personnel employed by local public communities, personnel remunerated by foreign agencies (NGO, international agencies, embassies, . . .). Excluding non-financial enterprises which do not submit accounts in accordance with the "Plan Comptable Sénégalais."
/b Fiscal year 1986/87.
/c Including public enterprises (28% of employees) and private enterprises (72%).

TABLE 1.5

LABOR COSTS IN MANUFACTURING AND PER CAPITA GNP

Country	Average labor cost per worker: CFAF thousands per month	Average labor cost per worker: As a multiple of GNP per capita
Côte d'Ivoire	149	5.9
Senegal	136	8.7
Morocco	87	4.3
Malaysia	85	1.3
Tunisia	80	2.0
Mauritius	50	1.2
Ghana	38	2.8
Indonesia	29	1.7
U.S.A.	784	1.7

Cost of labor to enterprises (including both salary payments and charges paid by employers) derived from national data. Per capita GNP for 1986 derived from the 1988 World Development report. The U.S. figures refer to 1987; they were provided by the US Bureau of Labor Statistics.

TABLE 1.6

GDP PER CAPITA AND COST OF CIVIL SERVANTS, 1987

Country or Average for Country Group	GDP per capita yearly	Cost of Civil Servants /a monthly	Cost of Civil Servants /a as multiple of per capita GDP
	(CFAF thousands)		
Senegal	202	152	9
Average, 9 CFA countries Burkina Faso, Chad, Mali, Niger, Togo, Benin, Senegal, Côte d'Ivoire	135	133	10
Average, 6 non-CFA countries Zaire, The Gambia, Guinea, Ghana, Mauritania, Morocco	124	35	3
Malaysia	543	140	3
Industrial countries			
France (1989)	4,795	503	1.3
U.S.A	5,460	641	1.4

Source: National Statistics.

/a Government expenditure on civil service divided by number of civil servants.

eroded much more severely by inflation, because inflation has been much higher in these countries than in the CFA countries, which benefited from free convertibility at fixed parity with the French franc. In Ghana and Zaire, where many devaluations occurred and domestic inflation has been very high (Table 1.7), the average cost of a civil servant in 1987 was equivalent to, respectively, 1.3 and 1.8 times per capita GDP, compared with 9.1 in Senegal.

The Crisis of the Modern Sector

Since 1986, employment in the manufacturing sector has declined by some 13 percent in Senegal, but wages expressed in either nominal or real terms have not declined significantly. In Côte d'Ivoire, employment in the modern sector other than public administration is reported to have declined by 26 percent from 1982 to 1988, with declines of 44 percent for expatriates, 29 percent for non-Ivoirien Africans, and 23 percent for Ivoiriens. But official statistics do not show substantial declines in the real cost of labor during this period. This lack of wage adjustment in the face of a shrinking demand is indicative of the rigidities of a highly regulated labor market.

From 1986 to 1989, the size of the public service has remained unchanged in Senegal; the number of new recruitments has therefore been about the same as that of retirees — some 5,000 over the three-year period. But the same number of jobs have been lost in the manufacturing and the banking sector during the same period.[6] Since 25,000 young Senegalese joined the labor force each year, very few of them have been able to find employment in the modern sector and the vast majority had to join the urban informal sector, which has been expanding very rapidly.

In a recent study, Zarour estimates that the informal sector provides a living for one-third of the population in the Dakar area.[7] On the basis of a detailed survey, the averagemicroenterprise employs five workers and the capital invested per worker is only 2 percent of the amount invested in the modern sector. The capital invested in microenterprises originates from personal savings, which are reported to be significant. Microenterprises hardly use the banking system and three quarters of them do not pay any tax.

The government revenues gained from the rapid expansion of the informal sector were insignificant, but the losses from the reduction in the size of the modern sector were substantial. To recoup part of its net loss, the government attempted to extract more taxes from the enterprises of the modern sector remaining profitable. The government could not, however, go too far in this direction. Raising taxes would reduce the profitability of the few enterprises still healthy and would increase the risk of accelerating the shrinkage of the modern sector, thus generating a vicious circle.

Because students did not fit into the informal sector and could not find jobs in the modern sector, they remained in the university longer than before. At the same time, more students were graduating

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[6] From 1986 to 1989, it is estimated that about 4,500 jobs were lost in the manufacturing sector and 700 in the banking sector.

[7] C. Zarour, *Etude du secteur informel de Dakar et des environs*, Dakar, August 1989.

TABLE 1.7

RATES OF DEPRECIATION OF THE CURRENCIES OF SUBSAHARAN AFRICAN COUNTRIES AND THE USA IN RELATION TO THE SDR FROM END-1982 TO END-1989

Country	Percentage Depreciation Expressed in Terms of Domestic Currencies
Rwanda	0.5
Senegal and countries of the franc area	2.5
USA	19
Mauritius	64
Mauritania	88
Kenya	102
Burundi	102
Countries of the rand area	181
Zimbabwe	196
Malawi	200
The Gambia	301
Sudan	310
Madagascar	396
Nigeria	1,220
Guinea	1,910
Tanzania	2,290
Zambia	2,760
Sierra Leone	6,300
Zaire	9,300
Ghana	13,000
Uganda	40,500

Source: IMF, *International Financial Statistics*, Washington, D.C.

from high school every year and most of them were going to university for lack of better opportunity. As a result, the size of the university population and the cost to the Treasury have been increasing rapidly, which has become a major source of concern.[8]

The problems encountered by the university reflect the crisis of the modern sector, which could evolve in various ways. A possible scenario would be a continuation of the past. Another would be a break from the past to restore competitiveness; this could be attempted with or without a change in the parity between the CFA and the French francs.

V. FUTURE PROSPECTS

Real per capita GNP remained stagnant in Senegal during the 1980s in spite of a large flow of external assistance (Table 1.1). Several indicators suggest that social conditions have improved in rural areas. The ratio of rural to urban incomes increased — a step in the right direction, but one resented by the urban population. After having gained 60 to 90 percent of the votes in most urban areas in 1983, President Diouf gained only 40 to 70 percent of the same votes in 1988.

To prevent a further weakening of its support among urban voters in the future, the government may avoid measures that could adversely affect the organized urban sector. If so, the modern sector will remain uncompetitive and lose further ground to the informal sector, and the share of government revenues in GDP will further decline. Since the fragile socio-political equilibrium cannot be preserved without maintaining a minimum level of government expenditure, the budgetary gap would then have to be filled through additional external assistance.[9] Subsidizing the modern sector will not restore growth, but increased external assistance will allow the government to buy time by avoiding social unrest.

To restore competitiveness, barriers will have to be removed between an overcapitalized modern sector, in which labor earnings are too high, and an undercapitalized informal sector, in which labor earnings are very low. This will require a deregulation of the labor market and the elimination of monopolies. Workers with skills in short supply and high demand would benefit from deregulation, but the majority of employees in the modern sector would lose.[10]

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[8] Because the Centre des Oeuvres Universitaires de Dakar (COUD) had to provide more services, it accumulated payments arrears equivalent to almost four times its 1988/89 budgetary allocation. In an attempt to avoid further accumulation of arrears, budgetary allocations to the COUD were almost tripled between 1988/89 and 1989/90.

[9] Donors have already been approached to finance special programs to provide temporary employment to young graduates and to finance the establishment of a second university in Saint Louis. Without fundamental changes in the educational system, such devices will only postpone the crisis.

[10] In a free labor market, an oversupply of university graduates would not be consistent with high salaries among white collar employees.

With inflation in France (and other industrial countries) averaging 10 percent a year in the next four years, relative production costs in Senegal could be reduced by about 25 percent if nominal returns to domestic factors (notably, wages) remained frozen and yearly inflation was held to 3 percent, which would reflect the higher cost of imported goods. On the other hand, if inflation, which has fallen to about 3 percent a year in France, were to remain at this level, freezing nominal returns to domestic factors would not permit a reduction in the rate of inflation in Senegal below 1 percent a year. With a yearly inflation differential of only 2 percent, it would take 11 years to reduce Senegal's relative production costs by 25 percent. Freezing nominal wages for more than a decade does not seem likely in the Senegalese context; when inflation was insignificant, between 1985 and 1989, the average cost of civil servants increased substantially.

If the slow treatment outlined above does not seem well fitted to Senegal, what about the shock treatment? This treatment has already been applied to agricultural producers. Senegal reduced the producer price of groundnuts by 22 percent in May 1988. (Côte d'Ivoire cut producer prices of coffee and cocoa by half in September 1989.) But nominal wages of civil servants in Senegal (and in Côte d'Ivoire) remained untouched at the time, and the ratio between the returns to producers of tradeables and nontradeables moved in the wrong direction.

The effect of this money illusion on modern sector wages can be illustrated with a simple numerical example (Table 1.8). Suppose that imports account for 25 percent of production costs (which corresponds to the ratio of imports to GDP) and that production costs have to be reduced by 25 percent in terms of foreign currency (taken for simplicity as the French franc). With the existing parity (FF = CFAF 50), an item produced for CFAF 100 presently costs FF 2 (line 1). To reduce total production costs to FF 1.5 (line 2), that is to CFAF 75 (line 4), returns to domestic factors would have to decline from CFAF 75 to CFAF 50. By contrast, if the parity were raised from CFAF 50 to CFAF 100 per French franc, total production costs could be raised from CFAF 100 to CFAF 150 and returns to domestic factors from CFAF 75 to CFAF 100 (line 5). To restore competitiveness, nominal returns to domestic factors would have to be reduced by one-third without devaluation, while they could increase by one-third with devaluation (lines 6 and 7).

Since the objective is to promote the production of tradeables versus nontradeables, nominal wages of civil servants should decline in relation to average returns to domestic factors; without devaluation, they might have to decline by 40 percent. If total production costs were representative of the cost of living, a 40-percent decline in the nominal wages of civil servants would result in only a 20-percent fall in real wages. With a devaluation, the cost of living would increase by 50 percent and the same reduction in real wages would be obtained by raising nominal wages 20 percent. Two different means can be used to achieve the same result, but one is likely to be more acceptable than the other, because of the power of money illusion. Nominal labor costs may be reduced to some extent by eliminating indirect benefits; but there has always been a strong resistance to lowering basic wages, even when the cost of living was declining. The Ivoirien experiment now underway, in which nominal wages are being cut, will show whether this resistance can be broken.

The benefits of the monetary illusion can be reached only if the inflationary impact of the devaluation can be contained, which requires sufficiently tight fiscal, credit, and income policies. If wages and prices of nontradeables were to double, the devaluation would be a failure. But if the nominal disposable income of civil servants were to increase from CFAF 100 to only CFAF 120, nominal prices

TABLE 1.8

REDUCING PRODUCTION COSTS WITH AND WITHOUT DEVALUATION

(With FF 1 = CFAF 100, Without FF 1 = CFAF 50)

Reducing Production costs by 25% in terms of foreign currency	Production Costs: Imports	Domestic Factors	Total
		(in French francs)	
1. Starting point	0.5	4.8	2.0
2. Objective	0.5	1.0	1.5
		(in CFA francs)	
3. Starting point	25	75	100
Objective			
4. Without devaluation	25	50	75
5. With devaluation	50	100	150
Change	(in percent of CFA francs)		
6. Without devaluation	0	-33	-25
7. With devaluation	100	33	50

Source: Simplified illustrative example.

of nontradeables could not increase substantially due to the lack of effective urban demand. Even with a low price elasticity of demand for imports, households would marginally reduce their consumption of imported goods, by, for example, spending CFAF 40 after devaluation instead of CFAF 25 before. This would leave them with CFAF 80 to spend on domestic goods and services after devaluation instead of CFAF 75 before; in such a case, the possibilities of raising prices of nontradeables would be limited.

Very few African countries south of the Sahara have been able to contain the inflationary effects of nominal devaluations. A real depreciation of the currency has been sustained in most cases through repeated nominal devaluations. The CFA franc is the only African currency — apart from that of Rwanda[11] — which remained broadly at par with the SDR from end-1982 to end-1989 (Table 1.7). During this seven-year period, the rate of depreciation expressed in terms of domestic currency ranged from 60 to 100 percent for Mauritius and Mauritania; from 100 to 200 percent for Kenya, Burundi, Zimbabwe, and the countries belonging to the rand area; from 200 to 400 percent for four other countries in Africa; from 1,000 to 10,000 percent for six other countries; and above 10,000 percent for Ghana and Uganda. If devaluation has been an effective way to reduce real wages in the modern sector, it has also been a slippery way.

Because it is a member of the Western African Monetary Union (WAMU), Senegal cannot decide unilaterally to change the parity of its currency unless it leaves the Union, and doing so would not be in its interest. Changing the parity between the CFA and the French franc would require the agreement of the seven members of the WAMU and probably that of the other eight members of the franc area.[12] Reaching an agreement between 15 countries would not be easy; designing the measures necessary to support the devaluation in each country without any leakage would be even more difficult. If the devaluation failed in some CFA countries, it could mark the end of the franc area. Many of the key actors appreciate the benefits of the monetary union and they have refrained from taking such a risk.

Since the parity between the CFA and the French francs has remained unchanged for more than 40 years, changing it would be a major decision, and this decision could be associated with a modification in both the composition and the nature of the monetary union. This could take place in the context of the unification of the European market. One could even conceive of an African snake containing the CFA and some other African currencies (for example, the naira, the cedi, and the Guinean franc) and replicating the undulations of the European snake. However, the African snake would have to be much fatter than the European snake, since coordination of financial and fiscal policies would be much looser among African members than among European ones.

Whether Senegal could benefit from such a scheme would depend on Senegal's own efforts. The country has been so far too preoccupied in mobilizing external assistance and not enough in solving its own internal problems.

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[11] Rwanda is presently experiencing severe balance of payments difficulties.

[12] The six member countries of the Bank for Central Africa (BCEAC), the Comoros Islands, and France.

CHAPTER TWO

MIEUX D'ETAT, MOINS D'ETAT: PARAPUBLIC SECTOR REFORM AND PRIVATIZATION

Of all the elements of Senegal's adjustment program, those most truly "structural" are the ones that aim to redefine the role of the state in the economy and to make it more efficient. Many different reforms are involved: deregulating and liberalizing markets; streamlining the civil service; improving the productivity of public enterprises (PEs); strengthening the public investment programming process; and "disengaging" the state by privatization, whether via divestiture of state-owned enterprises (SOEs) or — notably in agriculture — by transferring functions to the private sector.

In this chapter we focus on two of these areas of structural reform: the attempt to make PEs operate more efficiently, and the related effort to shrink the state by privatizing PEs. The issues surrounding rural disengagement are considered mainly in the chapter on agricultural reforms (Chapter Three), although some points of general interest are considered here. Liberalization of markets is also discussed in Chapter Three, as well as in the discussion of the New Industrial Policy in Chapter Four. General administrative reform in the civil service and the changes in public investment programming are passed over.

The focus on the parapublic sector reform experience — which, in Senegal, is known as parapublic sector reform or public enterprise sector (PES) reform — is justified for several reasons. First, it is an extremely important part of the overall problem of improved public sector performance, given the substantial role of the PES in employment, investment, debt management, and absorption of budgetary and credit resources, as well as in production of key inputs to the rest of the economy and vital services to consumers. Moreover, the reform experience is long. The first World Bank study of the problems of the sector took place almost 15 years ago, and the first reform actions began in 1977. Institutional reforms admittedly take a long time. But 13 years is long enough to allow us to judge outcomes, at least on many aspects of the reform. In Senegal, the outcome is quite clear: only modest progress has been made in improving the performance of the sector. The main purpose of this chapter is to explore the reasons for this reform failure.

We begin with a brief description of the PES, and then set out the main lines of the diagnosis that has inspired the PES reform efforts of the World Bank and the GOS. We then describe the programs that were designed by the Bank and the GOS to address the problems underlined in the diagnosis and summarize the results to date. We suggest a number of reasons for the meagerness of these results as of 1989. The bulk of the analysis is given to the effort at PES reform.[1]

I. THE PUBLIC ENTERPRISE SECTOR

Like many developing countries, the PES in Senegal is large and diverse. PEs are dominant in banking, mining, water, power, telecommunications, rail and urban transport, and low and middle income housing. PEs are responsible for marketing and processing of rice and groundnuts, some coarse grains, and the distribution of most agricultural inputs. They play a smaller but still substantial role in commerce, manufacturing, and tourism.

Table 2.1 contains general data on the size of the sector. Note that despite the considerable analysis of the sector since 1975, it is still not easy to find clear data on basics. Table 2.1 is derived from two recent World Bank reports and shows different figures on the number of PEs in the sector in the early 1980s; moreover, the 70 PEs listed in one source include those in which government holds a minority share, while the 86 in the other are majority-owned only. The latter source attributes 20 percent of GDP and 35,000 employees (15 percent of modern wage employment) to the sector, much more than the former.[2]

In any case, despite definitional problems and some ambiguity about data, the nature and scope of the sector and the general lines of its development are clear. Most of its growth in size and diversity can be traced to heavy GOS investment in the early 1970s, financed by a combination of windfall profits from phosphate exports and external borrowing. The government's motivations for this extension of ownership were varied: to control enterprises of national importance; to promote "Senegalization" of key businesses; to create jobs; and to promote industries, like tourism, where officials felt that private investment was not forthcoming.

As a result of this policy, the number of enterprises in which the state held at least a 50-percent stake grew by nearly 70 percent between 1972 and 1977, to 83.[3] By 1977, the PES contributed roughly

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[1] We rely for much of the information in this chapter on the comprehensive and candid World Bank report *Parapublic Sector Review*, 2 volumes (May 1989). We also drew on the insights in John Nellis, *Contract Plans and Public Enterprise Performance*, World Bank Working Paper Series, PPR (October 1988). We also benefitted from the comments on an earlier draft made by World Bank staff, particularly Bernard Drum.

[2] It is disconcerting to note that the UNDP/World Bank 1989 compendium, *African Economic and Financial Data*, gives still another set of numbers: 47-50 PEs in the mid-1980s, with 12,000 employees. The problem here is the use of a different definition, which is, however, not made clear in the compendium.

[3] Data in this paragraph come from the World Bank, *The World Bank and Senegal, 1960-1987*, August 1989, p. 64.

TABLE 2.1

MAGNITUDE OF THE PUBLIC ENTERPRISE SECTOR, 1981-87

	1981	1982	1983	1984	1985	1986	1987
Total Number of PEs							
Source 1 /a	70	83	85	85	85	85	87
Source 2 /b	83	83	85	85	85	85	87
PES's Share of GDP							
Source 1 /a	9.8%	-	-	-	-	7.5%	6.9%
Source 2 /b	-	20.0%	-	-	-	-	-
Government Equity Stake							
Nominal - CFAF billions	-	108.9	176.2	185.4	197.5	215.3	218.3
Real - 1980=100	-	91.3	134.7	128.9	122.4	114.3	109.7
as percent of total equity	-	60.9%	74.1%	72.5%	72.5%	71.6%	70.9%
Gross Value Added of PEs							
Nominal - CFAF billions	65.6	-	-	-	-	97.1	97.4
Real - 1980=100	59.9	-	-	-	-	51.5	48.9
Employment (1,000s)							
Source 1 /a	30.6	-	-	-	-	30.8	30.2
Source 2 /b	-	35.0	-	-	-	-	-

Sources: World Bank, The Republic of Senegal, Parapublic Sector Review, February 22, 1989; and World Bank, The World Bank and Senegal, 1960-1987, 1989.

/a Source 1 = World Bank, Parapublic Sector Review, February 1990. Includes all enterprises in which the GOS has direct participation, whether total, majority, or minority.

/b Source 2 = World Bank, The World Bank and Senegal, 1960-1987, August 1989. Includes only enterprises in which GOS participation is total or majority.

50 percent of adjusted value added in the modern sector and accounted for 30 percent of gross fixed capital formation. These acquisitions, of course, added little new productive capacity to the economy; between 1971 and 1975, 50 percent of government investment in the sector went to buy out foreign holdings.

Table 2.1 shows the evolution of the sector since the early 1980s. By the mid-1980s, the PES was composed of 21 *établissements publics* (EPs), 7 *sociétés nationales* (SNs), and 59 *sociétés d'économie mixte* (SEMs). The GOS holds 100 percent of the equity in both the EPs and the SNs but the SNs (a category created in 1977) have more management autonomy. The SNs are the most important in terms of the amount of government equity invested. The EPs are controlled by the Centre des Etablissements Publics (CEP), in the Ministry of Finance, through a policy of a priori setting of prices, budgets, investments, employment, and salaries.

II. DIAGNOSIS

By the late 1970s, strategic, organizational, and operational problems in the PES were a source of widespread alarm. The clearest manifestation of these problems was the large number of PEs with operating deficits and the growing subsidies that they required. As Table 2.2 shows, nearly half of the PEs were in deficit by 1977/78 and the size of government operating subsidies grew steadily into the 1980s. The parapublic sector, once envisioned as the cutting edge of the Senegalese economy and the best way to overcome private market failures, had become a heavy burden on state resources.

The first analysis of the problems underlying the deficits was carried out by a World Bank mission that studied the PES in 1976/77. The diagnosis elaborated in this study is now widely accepted; its main elements were adopted by the GOS in its parapublic sector policy statement in 1985. The main lines of this now standard diagnosis have remained essentially the same since the mid-1970s.

- **There is no coherent strategy to guide the expansion and development of the PES.** As a result, the sector is overextended, and includes many enterprises that should not be in the public sector — cinemas, grocery stores, and hotels, to take only a few examples. There is little guidance on overall pricing policies, priority in access to operating subsidies, or investment allocation. Criteria for inclusion or exclusion in privatization programs have not been made explicit. (Many of these deficiencies were becoming less prevalent by the end of the 1980s.)

- **The objectives of PEs are multiple and conflicting.** They are not operated as commercial entities, cost-minimizers, or profit maximizers. Instead, they have social mandates on price and employment levels, and their investment priorities are often politicized.

- **The sector's institutional framework is overly complex.** At least a dozen agencies in the Ministry of Finance, the Office of the President, and the Supreme Court, as well as technical ministries, have direct responsibilities in the sector. Interagency coordination is poor and, at least until 1987, there was no central agency developing policy guidelines.

TABLE 2.2

PARAPUBLIC SECTOR, AGGREGATE NET INCOME AND GOVERNMENT SUBSIDIES
1977/78 - 1981/82
(in current CFAF billions)

	1977/78	1978/79	1979/80	1980/81	1981/82
Surplus Entities	16.91	18.51	14.00	5.49	11.04
Deficit Entities	-10.76	-10.94	-17.05	-25.23	-28.18
Net Position of Sector /a	6.15	7.57	-3.05	-19.74	-17.14
Government Operating Subsidies	6.99	7.65	8.48	15.39	19.71
Number of Entities with Operating Deficits	35	31	35	40	37

Source: World Bank, The World Bank and Senegal, 1960-1987, August 1989, p. 65.

/a The CPSP and CSS, both transfer agencies, are excluded from all data.

Primary supervisory authority is shared by a technical ministry and a financial monitoring and control agency: the CEP for the EPs and the Contrôle Financier de la Présidence (CFP) for the SNs and the SEMs.

- **Controls over management autonomy reduce management incentives and operational efficiency.** The CEP and its a priori management system were created in 1966 to reduce waste and fraud in the sector. While this goal has been achieved to a large degree, success came at the cost of sharply reduced operational efficiency. The administrative burden of the system was heavy. Prices tended to be rigid and low, requiring subsidies to cover operating costs. Poorly considered investments left many of the EPs saddled with a heavy debt burden. Both SNs and SEMs, in principle, now have a good deal more independence from government oversight, and SAL IV aims at reinforcing this independence. But, in practice, autonomy still varies according to the political interest in the enterprise and its dependence upon the state for funds.

- **Effective management and budgeting are impossible due to a lack of good financial performance data.** The problem is especially pronounced for the more recently acquired SEMs but is a factor throughout the PES EPs. Significant differences usually exist between budgeted and actual expenditures, while the accounts available are usually two or three years late and in any case do not allow easy judgment of enterprise performance.

- **The sector suffers from a lack of competent and motivated personnel.** Directors General are often powerful bureaucrats being rewarded for loyal service while lower level personnel often lack technical skills. Recruitment for the sector is made more difficult by the small size of the indigenous business class and low salaries. That so many of the Directors General are political appointees further lessens the autonomy of the enterprises.

- In recent diagnoses, another factor is given heavy weight: the **soft budget constraint.** PEs had little financed pressure for better performance.

III. REFORM EFFORTS

The GOS and the World Bank, through two technical assistance and three structural adjustment programs, have devoted considerable effort to strengthening the management of PEs and reducing their dependence on public resources. The strategy of the Bank and the government has evolved from a training and TA-oriented program, targeting both the enterprises and the supervisory agencies, to a program built around disengagement of the state from all nonstrategic enterprises, rationalization of the institutional framework, and strengthening of the enterprises.

Approach of the World Bank

When the reform effort began in 1977, the World Bank (like other development agencies) was not opposed to Senegal's decision to build up a large and diverse public enterprise sector. Rather, the

Bank was concerned by the lack of a strategy guiding its development. Thus, the first Parapublic Sector Technical Assistance Project (PPTAI) put considerable emphasis on developing such a strategy.

As Senegal's liquidity crisis worsened in the 1980s and it became clear that the GOS would not have the resources required to address all of the problems of the sector, the Bank and the GOS shifted position toward one favoring disengagement of the state and a smaller, less diverse, and more efficient PES. There was little real progress towards that goal under SAL I (1980), the exception being the GOS decision to liquidate a large agricultural parastatal (ONCAD). (Its functions were temporarily taken up by another PE, SONAR or Société Nationale d'Approvisionnement Rural.) SAL II (1986) called for the GOS to prepare a methodology for privatization and a list of PEs to be sold off or liquidated. A list of 10 was prepared and shares were to be put on sale in October 1987. During this period, a number of liquidations were carried out. SAL III (1987) again called for the putting up for sale of the original 10 candidates, identification of another group of 10 to 17 for sale, and liquidation of another nine.

The Bank's strategy for institutional reform has also evolved. In 1977, it supported a program to strengthen the supervisory agencies through training and TA. Quite a number of agencies received TA under the PPTAI: the CFP got four resident advisors; the CEP, two; and the Finance Ministry's data processing department (DTAI) received some short-term assistance. The Audit Commission (CVCCEP) was given lead responsibility for the program of PE audits and the Bureau of Organization and Methods (BOM) was given responsibility for a training component to improve management and accounting skills, both within the supervisory agencies and within the PEs. PPTAII (1983) continued technical assistance to all of the above agencies.

Since SAL II it has been recognized that institutional complexity is itself an obstacle to reform New projects are working towards rationalizing the monitoring and control institutions. The former Cellule des Contrats Plans, the CCP, has been converted to the Délégation à la Réforme du Secteur Parapublic (DRSP), and given a bigger, stronger staff. It is now the lead agency for sectoral policy development, and is responsible for *contrat-plan* supervision, and for privatization as well.

The *contrat-plan* (CP) was, through most of the 1980s, the key element in PES reform strategy. It is variously translated as "contract plan" or "performance contract"; we use "contract plan."[4] This document lays out the mutual obligations of the state and an enterprise over a fixed period of time. To negotiate a plan, an enterprise must identify and quantify its performance objectives and financial needs while the state must calculate the amount of support (financial and technical) it will be able to provide in return. The resulting document is not legally binding, but provides a framework for performance monitoring. SAL I called for the completion of 10 of these contracts within a year of signature of the loan, SAL II for 12, and SAL III another 12. SAL IV gives them a somewhat less central role, and Bank staff now emphasize more than before the need to harden the budget constraints on PE management.

The contract plans are intended to strengthen enterprise autonomy since enterprises have some latitude in how they meet their targets. External audits have been another major element in the effort to

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[4] The rural development agencies operate under *lettres de mission*, usually translated as "statements of objectives." These documents are similar to the contract plans but more general. In this report, references to contract plans also cover *lettres de mission*.

build up autonomy. Under SALs II and III, projects have been started to establish a central computerized financial data base, clarify and regulate cross arrears, reduce direct budgetary subsidies by 50 percent between 1985/86 and 1989/90, and identify and review indirect subsidies. In 1987, it was decided that the CEP's powers of a priori control of the EPs would end in 1989 and that the EPs would subsequently be classified as the more independent SNs.

Because reduction in subsidies and other support depends at least in part on increased operational efficiency of PEs, the reform effort has included a number of policies aimed directly at improving PE productivity, including introduction of market-based pricing for competitive products and long-run marginal cost pricing for nontradeables; a freeze on hiring while trying to maintain salary levels and thus preserve performance incentives; and establishment of a new training institution responsive to the differing needs of students, bureaucrats, and high officials, while emphasizing practical applications. This latter objective was fulfilled with the founding of the African Center for Advanced Management Studies (CESAG).

Assessment

Assessments of progress in institutional reform efforts are especially difficult, due to the frequently intangible nature of the goals, the sparsity and weakness of quantitative measures of performance, problems of weighting uneven performance on different components of a program, and the fact that many situations are subject to judgment calls of the glass-half-full or half-empty variety. It is therefore not surprising that assessments of the impact of the PE reform program in Senegal vary.

The Project Completion Report of SAL I (May 1985) suggested that the PES reforms were the strongest part of that ill-fated loan.

> The Government's performance under this element of structural adjustment was relatively strong. In June 1983, it had 16 companies in liquidation . . . while four companies were transferred to private ownership. . . . The *contrat-plan* was pushed by the President of the Republic as a major tool of economic reform and actively pursued by enterprise managers. . . . To date, of the 10 contract plans initially envisaged in the SAL program, six have been signed, of which four have benefitted from counterpart funds. Improvements were achieved in tariff levels, financial reorganization and investment planning; a few of these enterprises achieved some reduction in overstaffing.[5]

This up-beat assessment was starkly contradicted by the Bank's *Country Economic Memorandum*, issued a few months earlier (September 1984). This report took an extremely negative view of PES reform, saying that the GOS had succeeded in implementing none of its commitments to PE reform (p. 56).

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[5] World Bank, "Project Performance Audit Report, Senegal Structural Adjustment Loan and Credit," May 9, 1985, p. 65.

Most ensuing Bank assessments were more measured — positive for the most part but hesitant. Thus, the 1989 evaluation by the World Bank Operations Evaluation Department (OED), *The World Bank and Senegal, 1960-1987*, expressed the view that, despite delays and slippages, the PES reform program was moving forward. And the 1989 *Parapublic Sector Review* called the impact of the reform "mixed," after noting that financial performance of the sector had deteriorated and its burden on the budget had not diminished.

It is, however, difficult for the outsider to see the basis for these measured, generally positive assessments. Review of the documentation and inquiry in Senegal lead to a more dour conclusion about the impact of the PES reform program.

Claimed Achievements

In Bank and GOS assessments of the PES reform program, the following have been claimed as achievements:

- Bank financing and encouragement of local consulting firms have **helped create new auditing capacity**. In addition, external audits are established as an important management tool.

- **Contract plans are established as a major forum for state/enterprise dialogue**; some 12 have been signed between 1981 and 1988, of which three have been completed. Another 10 were under negotiation in 1988 and 8 more were envisaged.[6]

- **Strategic studies have been successfully completed.** These studies address such major policy issues as indirect subsidy levels, cross debt, and special conventions or concessions,

- **Relative growth of the sector has stopped.** Its share of total national fixed investment has fallen from 41 percent in 1981 to 30 percent on 1987, reflecting a restraint in government investment policy and the growing role played by the private sector.

- **The financial data base** for individual enterprises and the sector as a whole is **much improved.** By June 1982, detailed financial data were available on the performance of 90 percent of the PEs, including aggregate data by subsector of the economy and consolidated data for the entire parapublic sector.

The depth or meaningfulness of some of these achievements can be doubted. The contract plans, as we will see later, have had little observable impact on enterprise operations. Much of the auditing effort was wasted due to the poor state of the enterprises' financial accounts and haphazard follow-up on

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[6] Nellis, ibid., p. 60.

recommendations.[7] And the computerized database, originally scheduled for completion in December 1986, is still not fully operational. Still, these achievements do represent genuine forward movement. Given the magnitude of the task and comparing Senegal's progress to that in similar countries, these gains should not be taken lightly. But they are the fruits of a long engagement in reform — five years for some aspects, 13 years for others — involving expensive technical assistance, much bank staff time, and other costs. And they have to be looked at, too, in the light of the large gap between objectives and achievements.

Findings

By most indicators, there has been a lack of reasonable progress towards meeting the major objectives of the reform effort.

- As shown in Table 2.3, the budget burden of the sector was not reduced between the early 1980s and 1989, whether measured in terms of operating deficits, direct subsidies, or indirect subsidies. The overall direct subsidy figure can be misleading since in some recent years its increase has been due mainly to agricultural price support payments and so does not necessarily indicate continuing poor financial performance for the main part of the PES. The 50-percent increase in groundnut prices in 1986 combined with a fall in world oilseed prices pushed price support payments to over 50 percent of total subsidies in 1987.

  Nonetheless, **the continuing rise in operating subsidies**, which exclude price support payments, **is a telling indicator**. And the performance was worse than the data show, since many enterprises reacted to cutbacks in operating subsidies by building up arrears, increasing indebtedness, and extracting indirect subsides such as tax relief for imports and lowered input prices. Table 2.3 shows that these indirect subsidies are many times the magnitude of direct subsidies and, at decade's end, were rising. Little progress has been made in reducing indirect subsidies that were written into the special conventions signed with sugar, cement, and grain milling firms. In recent months, and in connection with SAL IV negotiations, basic changes have been introduced to eliminate the sources of some of these problems.

- **Privatization of government ownership, the cornerstone of the GOS disengagement effort, is progressing hardly at all.** Divestiture was discussed as early as SAL I, and actual proposals were made in 1982. Although the GOS New Parapublic Policy gave divestiture high priority in 1985, and the World Bank has made it a key area of conditionality in its SALs, almost nothing happened for four years. The GOS selected 26 enterprises for partial or full privatization, but as of early 1990 very few transactions had taken place, all of them very small, and these only recently. Thus the size of the

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[7] Thus the 1985 Project Completion Report of the First Technical Assistance Project states: "With one exception, it appeared that the accounts of the companies audited under the project were so poorly kept that full scale audits were not warranted; what these companies needed first and foremost was accounting assistance."

TABLE 2.3

ECONOMIC AND FINANCIAL PERFORMANCE OF THE PARAPUBLIC SECTOR, 1978-87

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of PEs										
SENs	-	-	-	-	56	58	58	57	57	59
SNs	-	-	-	-	4	4	4	5	5	7
EPs	-	-	-	-	23	23	23	23	23	21
Total	83	83	83	83	83	85	85	85	85	87
Government Equity Stake										
Nominal-CFAF billions	-	-	-	-	108.9	176.2	185.4	197.5	215.3	218.3
Real - 1980=100	-	-	-	-	91.3	134.7	128.9	122.4	114.3	109.7
as % of total equity	-	-	-	60.9%	74.1%	72.5%	72.5%	71.6%	70.9%	
Fixed Investment										
Nominal-CFAF bns	-	-	-	41.6	-	-	-	-	44.9	58.0
Real - 1980=100	-	-	-	38.0	-	-	-	-	23.8	29.1
as percent of total investment in the economy	30.0%	-	-	40.6%	-	-	-	-	24.5%	29.4%
Profits/Losses (after taxes but before subsidies)										
Nominal-CFAF bns	-	-	-	-38.4	-17.8	-0.5	3.7	-20.9	-22.8	-
Real - 1980=100	-	-	-	-35.0	-14.9	-0.4	2.5	-12.9	-12.1	-
as % of current budgetary expenditure	-	-	-	25.4%	10.8%	0.3%	1.8%	9.6%	10.3%	-
Direct Subsidies										
Total										
Nominal-CFAF bns	-	-	-	21.6	26.2	21.7	47.7	22.4	36.8	40.3
Real - 1980=100	-	-	-	19.8	21.9	16.6	33.2	13.9	19.5	20.3
as % of current budgetary expenditure	-	-	-	14.3%	15.8%	11.6%	23.3%	10.3%	16.7%	-
Operating Subsidies /a										
Nominal-CFAF bns	5.7	6.0	6.0	6.3	7.2	8.3	8.7	9.3	8.8/b	7.9
Real - 1980=100	6.2	6.0	5.4	5.3	5.5	5.8	5.4	4.9	4.4/b	4.1
as % of current budgetary expenditure	-	-	-	4.2%	4.4%	4.4%	4.2%	4.3%	4.0%/b	-
Indirect Subsidies	-	-	-	-	-	-	-	-	-	80.0

Sources: World Bank, The Republic of Senegal, Parapublic Sector Review, February 22, 1989 and The World Bank Senegal, 1960-1987, 1989.

/a Excludes subsidies paid to farmers through the RDAs and price equalization payments. NOTE that these figures are substantially less than those shown for operating subsidies in Table 2.2. The difference seems to be due to differing treatments of the RDA subsidies.

/b Estimate based on reports that operating subsidies were reduced by 5 percent from their 1985 base.

/c Estimate based on reports that operating subsidies were reduced by 15 percent from their 1985 base.

sector, measured by the number of PEs has risen, the nominal value of government equity invested in them doubled between 1981 and 1987, and the state's share of total equity in the sector rose from 61 percent to 71 percent in the same period (Table 2.1). There may have been some reversal of this trend after 1987, but the data are not available, and, in any case, changes have probably been small.

- According to such measures as are at hand, **productivity has not improved** (Table 2.4).

Underlying these manifestations of stalled reform is the program's failure to achieve its proximate objectives.

- **Supervisory functions are still poorly performed.** Put another way, in 1989, the institutional capacities of the sector remained weak and responsibilities ill-defined and fluid, with functions migrating between agencies according to the relative power of actors. For example, the DRSP, which is charged with managing the PES reform effort, has instead been pulled into the day-to-day financial management of the PEs as a result of the weakness of Ministry of Finance agencies responsible for that task.

  Poorly targeted training and technical assistance have been given over the years to at least six supervisory agencies, but no one of them was assigned the lead in coordinating sectoral management and control. Agencies were recast (the CCSP from the GESP or Groupe d'Etudes du Secteur Parapublic, the DRSP from the CCP) without the terms of reference of existing agencies being adjusted. A study completed in 1988 recommended actions for the rationalization of the supervisory functions but no action had been taken as of February 1989. The large number of agencies with a significant role in managing the sector continues to hamper efforts at reform. In SAL IV, many of these bodies are slated for elimination — a recognition of past missteps and an indication of resolve to correct them.

- **The progress that has been made is highly fragile.** Frequent reshuffling of administrative units, heavy expatriate input, high turnover of Senegalese staff, dependence on foreign assistance for operating budget supplements — all of this has prevented the emergence of durable organizational capacity. Thus in the key agency in PES reform, the DRSP, expatriates still play an important role, budget constraints rule out locally financed travel beyond the Dakar region, and low salaries and the apparently unattractive career opportunities make it difficult to recruit and retain qualified Senegalese personnel.

- **Improvements in internal management autonomy and economic policy making are not yet evident.** Although a priori powers were to be eliminated in August 1989, the CEP in 1989 still regulated expenditures and collected receipts from the EPs. According to recent charges, the CEP is to be shut down in 1990, because by then all **établissements publics** are to be transformed into SNs or government departments. This means that the CEP will no longer have any role. In fact, its role really ceased in 1989 when previously existing overdraft arrangements were terminated (see Diagnosis section). By all accounts, until 1989, the GOS maintained its channels of influence over the public

TABLE 2.4

PRODUCTIVITY OF SELECTED PUBLIC ENTERPRISES, 1980-88

	1980	1981	1982	1983	1984	1985	1986	1987	1988
OPCE (post) /a	100	98	86	86	72	74	74	72	68
SENELEC /b	100	104	88	101	107	101	112	114	109
RNCFS /c	-	100 /f	97	105	146	138	152	202	230
SOTRAC /d	-	100 /f	113	116	90	90	83	85	90
SONEES /e	-	100 /f	103	104	105	104	106	111	111

Source: P. Plane, "Le Secteur des Entreprises Publiques Sénégalaises: Une Analyse Critique du Processus de Reforme," revised draft report prepared for Elliot Berg Associates, January 1990.

Table derived from data submitted by the enterprises. The production measure used in the calculation of output per employee is as follows:

/a Rate for postal correspondence at constant prices.
/b Kwh produced.
/c Number of passengers and tons of merchandise transported. These two factors are weighted by their relative contribution to total income in current prices.
/d Number of passengers carried.
/e Number of cubic meters produced.
/f Index is calculated around the fiscal year, 1980/81 = 100.

enterprises and continued to politicize management decisions in spite of reforms. Although reforms announced in 1987 prohibit the appointment of Directors General with explicit ties to the relevant technical ministry, a recent survey found that of 56 enterprises responding, 32 were being led by ex-*fonctionnaires*. And although management autonomy was in theory increased by a new provision preventing the arbitrary removal of Directors General, this provision is being ignored. Newly created SNs are finding it difficult to balance interest group pressures and are having less success in containing wage increases than they had when under government control.

- Over the past decade, **there has been no increase in the relative prices of public goods**, in spite of evidence that they are under valued (Table 2.5). These prices remain rather sticky. And even in the relatively well-managed PEs, rate-setting capacities are underdeveloped. For example, in its second contract plan, SOTRAC, the Dakar area transport company, anticipated making up the declining real value of its subsidy by charging an across-the-board, per-ride surcharge. But this led to diversion of passengers away from SOTRAC in the competitive short haul market, while still preventing the company from covering its costs on the less competitive long haul segment of its business.

- Productivity levels have not been extensively analyzed, but a crude assessment of productivity trends for five PEs (Table 2.4) shows that **productivity (output per employee) did not improve**, except in the case of the RNCFS, the national railway, in which a number of workers employed in track maintenance were shifted off of the payroll and rehired as private subcontractors. Continued overstaffing undoubtedly explains much of this lack of productivity increase. Employment levels remained frozen at roughly 30,000 between 1981 and 1987. To lessen opposition, enterprises have preferred to freeze salaries and reduce their work force by natural attrition.

IV. EXPLANATIONS FOR THE FAILURE OF REFORM EFFORTS

Senegal's parapublic sector reform effort has little to show, so far, for the substantial effort it has absorbed. The obvious question is "why"? For convenience, we group explanations into two categories: putative and fundamental. This distinction is hardly watertight, but serves to separate commonly cited factors that seem secondary or even marginal, from those that are central.

Putative Reasons

We call these putative not because they entirely lack validity, but because they are widely cited, yet exaggerated or unclear in meaning.

TABLE 2.5
THE EVOLUTION OF PRICES FOR PUBLIC SERVICES, 1979-88
(1979=100)

Items	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Postage Stamps (OPC)	100.0	100.0	113.3	125.0	135.0	150.0	150.0	193.3	218.3	242.0
Subscription (SOTRAC)	100.0	119.0	143.7	161.9	176.5	180.9	207.1	214.2	228.6	228.6
2nd Class Ticket (SOTRAC)	100.0	116.9	143.4	160.4	179.2	179.2	205.7	213.2	226.4	226.4
2nd Class Ticket (RNCFS)	100.0	98.6	111.5	125.8	143.3	151.3	151.3	151.3	151.3	151.3
Ticket: Dakar-Diourbel (RNCFS)	100.0	95.4	111.2	119.1	144.1	156.7	156.7	156.7	156.7	156.7
Electricity (SENELEC)	100.0	108.8	124.8	136.9	144.4	155.4	162.6	167.4	172.5	172.5
Water (SONEES)	100.0	100.0	104.5	105.7	112.1	144.2	169.6	169.6	169.6	169.6
Weighted Average of Prices for Public Services (I) /a	100.0	108.9	128.0	141.3	156.6	165.2	180.8	186.4	194.5	195.0
Relation to Other Prices										
African CPI (II)	100.0	108.8	115.2	135.1	150.8	168.7	190.6	202.7	194.0	190.0
I / II	100.0	100.1	111.1	104.6	103.8	97.9	94.9	92.0	100.3	102.6
Minimum wage (III) /b	100.0	124.5	130.7	142.0	163.5	163.5	171.6	171.6	171.6	171.6
I / III	100.0	87.5	97.9	99.5	95.8	101.0	105.4	108.6	113.3	113.6
African CPI, public service prices removed (IV)	100.0	108.8	114.4	134.7	150.4	168.9	191.2	203.7	194.0	190.0
I / IV	100.0	100.1	111.9	104.9	104.1	97.8	94.6	91.5	100.3	102.6

Source: P. Plane, "Le Secteur des Entreprises Publiques Senegalaises: Une Analyse Critique du Processus de Reforme," revised draft report prepared for Elliot Berg Associates, January 1990.

/a Weighted according to consumption patterns.

/b The nominal minimum wage used here does not account for special supplements added to it in 1982, 1983, and 1985.

Lack of Compliance

This explanation is not too significant, because many of the reforms agreed to have been carried out, if only on the surface and after delays. The slowness of adoption may have hurt the reform effort and has certainly caused a lag in impact. Many targets have had to be revised downwards (for example, the number of contract plans, percent of subsidy reduction, and number of audits per year). So it is true that compliance has been half-hearted and sluggish. But why? One reason is that targets were often unrealistic in the first place. The SAL I requirement for 10 CPs to be signed in one year is a case in point; expectations about the speed of privatization is another. The inherent difficulty of bureaucratic change also enters. These kinds of factors certainly explain some of the poor results, but they do not g far enough.

Lack of Political Will

As with noncompliance, there is something in this argument. But lack of political will is too general and all-embracing a charge. It can be levied against any government that sacrifices some efficiency objectives for other goals. Democratic governments everywhere have difficulties with austerity programs, but it is hardly illuminating to call this a lack of political will. In any case, substantial political commitment seems to have existed at various points in the evolution of the reform program. The GOS was open to radical proposals for change in the early 1980s; liquidation of ONCAD, which it did on its own, is one example. There existed a general disposition to try many of the reforms proposed by Bank staff or their own agencies. This is reflected in the adoption of significant legislative changes (reform laws 77-89 in 1977 and 87-19 in 1987), and in the New Parapublic Sector Policy announced in 1985, which was regarded by most observers as a statement of serious intent. The most frequently cited cases of nonperformance — failure to meet contract plan obligations and slowness in privatizing PEs — are explainable less by reference to political will than to fundamental difficulties in the administrative environment and to flaws or unrealistic expectations in the proposed reforms.

One has to ask, in considering this matter, why the GOS authorities should reject administrative reforms such as those proposed for the PES if their adoption would bring about the benefits their proponents predict: increased productivity, healthier public finances, and faster economic growth. In addition to general bureaucratic resistance, the main answer has to be that the benefits were too small, slow, or uncertain to outweigh expected costs. Or, the benefits that looked attractive on a general level, and at an early stage in the negotiation of policy-based loans, turned out to be less appealing as details were filled in and implications became clearer. Also, a number of factors tended to shift the political authorities' cost-benefit calculus against reform. The elections of 1983 and 1988, combined with growing concern over unemployment, certainly raised expected costs. And the poor results of the early efforts probably reduced expected benefits. Avoidance costs were small; the low and declining credibility of donor conditionality created a low probability that Senegal would be penalized (by aid reductions) for nonperformance. Donor acceptance of token performance eroded political resolve.

So while it may not be wrong to underscore lack of political will or commitment as a stumbling block to reform, neither is it terribly illuminating. The more interesting questions arise in analyzing the determinants of these cost and benefit expectations.

Lack of a Guiding Sector Strategy

Those who have stressed this point usually had in mind the lack of a comprehensive vision of what the size and structure of the parapublic sector should become; they deplore, for example, the lack of a clear statement about which PEs should be retained in the public sector, which privatized fully, which partially, and which PEs liquidated. But this kind of grand design is not essential to PES reform; more ad hoc programs can be effective, and indeed may be preferable. Often, the grand designs break down when governments declare their intentions to privatize enterprises that should be liquidated. So the lack of broad strategy directives is probably not a significant factor; it is not clear that any announced strategy would have had more impact than the New Parapublic Sector Policy declaration of 1985.

Too Little Time for Program Impact to be Felt

Thirteen years, two TA projects, and three SALs represent substantial time and effort put into reform of the sector. It is true that some key components of the reform have been pursued with real vigor only since the mid-1980s — privatization, for example. And five years is not much time for so delicate an operation. It is also true that general administrative reforms are everywhere slow and often marked by slippage and failure. But the time has been long enough and the effort big enough to have yielded significant improvements, of which few are as yet visible. Steps have been taken in late 1989 which are more positive than past actions, and SAL IV proposes further changes. So perhaps by 1991 the present rather negative assessment of reform progress will have to be revised.

Fundamental Reasons

We turn now to more fundamental reasons for the sparsity of positive results from this intensive experiment in PE reform. Three types of reasons can be distinguished. The first is so obvious it often goes unmentioned: the problems of administrative and organizational reform at issue are enormously difficult to resolve. Many of them are intractable; nobody knows how to solve them. After all, the record of administrative reform is hardly brilliant anywhere in the world. A fair assessment therefore has to measure achievements against the difficulty of the task.

A second set of fundamental factors are general to the reform effort in Senegal — that is, they affect all sectors and macroeconomic policy change as well: political and bureaucratic risk aversion and resistance to change, the soft budget conditions that allow the GOS to persist in policies and programs that are ineffective or worse, and the related willingness of the foreign donor community to continue to support Senegal despite lags in compliance. These are considered elsewhere in this report.

The third set of fundamental reasons for slow progress in reform consists of what can be called failures of the institutional sponsors of the reform program — notably, bad reform-mongering by the Bank and its Senegalese partners. We limit our discussion in this chapter to this third set of factors — that is, the inadequacies in the diagnosis, design, and implementation of the reform program. These are the factors most amenable to attack by donors and the GOS. Two aspects receive special attention: the overcommitment to contract plans as the chief instrument of PE reform, and excessive focus on privatization of ownership as the way to shrink the sector.

It is well to insist at the outset that the point here is not to apportion blame, but to deal candidly with these efforts so that everybody can do better in the future. It is also important to acknowledge that it is a lot easier to criticize than to craft reforms, especially with the benefit of hindsight. Nevertheless, there is much to criticize here, and there are many lessons to draw. Indeed, Bank staff have already pointed out many of the deficiencies outlined in our analysis, notably in the *Parapublic Sector Report* of 1989. And many of the lessons are incorporated in the program of SAL IV.

Inappropriate Diagnoses and Errors in Program Design

While it is true that diagnosis and prescription are easier after the fact, there were nonetheless some components in the reform program that all parties had doubts about, and others that deserved to be doubted.

- The diagnosis preceding the World Bank's first technical assistance project gave **too much weight to deficiencies in oversight and central control** as the source of the sector's difficulties. The resulting program design focused too much on strengthening oversight agencies while it neglected pressing problems stemming from the unmanageable size of the sector and the enterprises' lack of autonomy. Even more serious, the project scattered technical assistance over the whole flock of oversight agencies. The result was to reinforce institutional confusion due to conflicting jurisdictional claims.

- Beginning with the first SAL (1980), overextension of the parapublic sector was recognized as a major concern. Privatization then became a standard element in the policy dialogue. But **too much emphasis was put on the least promising form of privatization** — the sale of government ownership, usually shares in mixed companies. The transactions typically involve small companies only and in any case do little to change either corporate culture or the competitiveness of the environment. Hence these sales could do little to improve efficiency. Nor, since the companies were so small, could they have much impact on freeing up budget or credit resources.

  Because the Senegalese government seemed firmly opposed to privatizing the major culprits in the sector, other approaches should have been explored, notably deregulation and fragmentation by contracting-out of activities like maintenance, training, data processing, and so forth. These were absent from the dialogue until the late 1980s, and, even then, recommendations to pursue subcontracting possibilities fell on arid ground, in part because the DRSP, the only possible implementing agency, is not set up to implement such approaches. A final error was to tie all this to SAL conditionality. This had no observable positive results but some negative ones. The privatization question is discussed in greater detail below.

- The diagnosis put **too much stress on inadequate government/PE communication**, lack of transparency, and lack of government financial support as chief sources of the sector's poor performance. We can infer that the diagnosticians believed that binding government financial commitments to the PEs were both desirable and feasible. This article of faith is the foundation on which the religion of contract plans is mainly based. Contract plans have come to be seen as handy instruments for nailing down government money. Put more politely, they are seen as good instruments for improved communication between managers and owners (the state), and an ideal way to make respective commitments and obligations transparent. This is why the PES reform program made the contract plan its centerpiece after 1980. But the basic premise — that PEs should and could receive binding financial commitments from government — rests on dubious assumptions about how public expenditure programming works. For this and several other important reasons the emphasis on the contract plan was misplaced. The tremendous priority given to contract plans is probably the greatest diagnostic and design error in the reform program. We elaborate on this point in a later section on contract plans.

- At a broader level, there seems to have been **too little thought given to sequencing issues**. For example, while a priori control of the EPs was scheduled to end in August 1989, only a few EPs had moved toward a management control structure (such as a strengthened Boards of Directors) that promised to improve supervision of their operations as more autonomous enterprises. Greater autonomy without adequate controls led to excessive salary increases for some PE managers and staff.

- **Some reform measures were too hurriedly devised and insufficiently thought through.** One example was the condition in SAL III that the GOS reduce direct operational subsidies by 50 percent over five years (subsequently revised down to 30 percent). But the level of subsidy reduction and the schedule were set arbitrarily, without regard for either the enterprises's needs or the commitments made in the CPs. Subsidy payments have been reduced; but it has been done by simply applying across-the-board cuts. In many cases, the subsidy reduction did not result in reduced deficits; PEs maintained activities by hook or crook — by accumulating unpaid bills, for example. But some were unable to meet their obligations or found their survival threatened. As a result, in mid-1988, the GOS stopped further subsidy reductions and undertook a study of total (direct and indirect) subsidies by individual PE.

  Under SAL IV, the Bank is again trying to attack this problem, this time in a more nuanced manner. Operating subsidies to all commercial PEs (amounting to less than a billion CFAF in 1988/89) are required to be phased out entirely over a three-year period; they will be reduced from 10 billion CFAF in 1988/89 to 7.4 billion in 1991/92. Subsidies for equipment purchases are supposed to go through the same vetting procedures as other items in the public investment program. SAL IV reflects the lesson that direct subsidy reduction by itself is not enough. Thus it also addresses the problem of overdrafts. Some of the 18 EPs whose finances are pooled and controlled by the Ministry of Finance's Central Accounting Agency (ACC) were subsidized by others —

a major hemorrhage in terms of expenditure control.[8] In August 1989 the GOS agreed to discontinue this overdraft arrangement.

- **Too little priority was given to the indirect subsidy problem**, though Bank (and Fund) staff were certainly aware of the nature and magnitude of the problem. As already noted, indirect subsidies swamp in magnitude the direct subsidies enjoyed by the PEs. According to the Bank-financed study of this question, indirect transfers to all public and private enterprises between 1984 and 1989 amounted to some 80 billion CFAF a year. Most (58 billion) came from special privileges granted under the Investment Code and special agreements. Some 18 billion came from interest rate differentials in on-lending to PEs and from GOS guarantees of PE loans. It was not until negotiations over SAL IV that action seems to have been taken: a circular of August 1989 announces that on-lending will henceforth be at commercial interest rates, except where the loan agreement specifies otherwise, and that PE loans will no longer be guaranteed by the GOS. Why this issue was not addressed more squarely at an earlier point, say in the course of preparation or supervision of earlier SALs, is not self-evident.

- The diagnosis and program design placed **too much confidence in technical assistance.** The documents contain many examples of what is a common World Bank malady — resolving institutional difficulties by footnote or by parenthetic reference. A deep-rooted institutional or structural problem is identified — such as an inadequate budgeting system. The project or program paper dismisses it in passing, by noting that the problem is being addressed or will be addressed by a technical assistance project in the Ministry of Finance, as though that is the end of it. Moreover, much long-term resident technical assistance was used, despite its high cost and extremely poor track record, and the increasing obstacles to its effective use, not least of which is the fact that many Senegalese do not want resident expatriate TA.

- Related to the issue of TA is the **lack of realism in addressing the fundamental problem of local staff and incentives.** The supply of well-trained and motivated professionals in Senegal is limited, and the public sector has an increasingly hard time attracting and retaining them due to its low salaries. Bank project papers usually mention this factor as a risk, but in practice little is done about it; projects proceed as if short-term training will really loosen these human resource constraints. Alternatives are admittedly hard to come by. But they are not entirely absent — for example, special

[8] Ten of the 18 EPs had accumulated overdrafts of almost 17 billion CFAF by mid-1989, up by 4.5 billion since 1988 and by 12.2 billion since mid-1985. The main recipients of the overdrafts are administrative-type EPs, such as COUD (Dakar University) and ISRA (the agricultural research body), which use these funds to cover operating costs, including salaries. Government, the owner of these EPs, will have to make good on these overdrafts. This practice diluted the impact of the reduction of direct budget subsidies; not only were needed austerity measures put off, but reductions in the current budget deficit were temporary and cosmetic improvements, purchased at the price of future budget obligations. Moreover, the 8 EPs that were, in effect, cross-subsidizing the 10 beneficiaries of the overdrawn EPs were given the wrong signals; whatever incentive they had to maximize revenues was certainly eroded.

(overt) salary supplements, the creation of special executive or technical cadres, or the contracting out to private specialists of key functions of the agency in question. Some of these approaches are now being tried in the DRSP. But, today's meager results might be less disappointing if this structural problem had been acknowledged more forcefully from the start.

Poor Program Implementation and Supervision

It is not surprising that the program had some poorly designed features given the complexity of the problems addressed and the short time available to devise "solutions." But what is more important is that the World Bank, which had primary responsibility for the reforms, was in some important instances unable to respond adequately to shortcomings that emerged during implementation. This was due to shortages of staff available for supervision, to the intractable nature of many problems, and to distortions introduced by the existence of conditionality.[9]

Tactical Errors in Training

It is clear that the training and TA components of the reform effort have so far achieved less than might have been reasonably expected, as a result of poor program execution and supervision.

- **Reliance on the Bureau d'Organisation et Méthodes was excessive.** The BOM was given responsibility for developing, coordinating, and monitoring the training components of PPTAI and PPTAII. In spite of significant TA and funding from the Bank, the BOM's training plans were incomplete and of poor quality, while its proposed programs consisted of overly general seminars, too academic to be of much practical use. The Bank stayed with the BOM until June 1987, long after supervisory missions and others had pointed out its deficiencies.

- In 1983, PPTAI injected 28 new, Bank-financed Senegalese staff into the Cellule des Contrats-Plans over the course of a few months. This was too much to absorb and also, given scarcities of well-trained people, involved some deterioration of staff quality.

Weak Follow-Up

Supervision of policy loans is extremely demanding — much more so than conventional project loans. Yet staff time in lending agencies — the World Bank as well as others — is rarely adequate for close follow-up of implementation problems. For this and other reasons, the supervisory function tends to be poorly performed.

- **The Bank was not able to use the lessons from PPTAI in designing PPTAII** because it designed the latter before the former was evaluated. (Later modifications to PPTAII did take the evaluation into account.) By the Bank's own admission, it provided no

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[9] Senegal's PE reforms received more supervision than is common. In 1987/88, for example, the staff member with principal responsibility made five supervision missions.

formal supervision for one year of the PPTAI project, follow-up was sketchy on project-related studies and recommendations, and serious difficulties with technical assistance personnel were allowed to fester.

- During the first five years of the reform effort, when audits were a central feature, there was **very little follow-up once the audits were completed.**

- An admirably thorough effort to calculate **cross arrears through 1986 was completed but there has been little progress towards settling those accounts.** Net arrears owed to the state were then estimated at 18-24 billion CFAF. A program begun in 1987 to eliminate all cross arrears within five years saw only limited progress up to 1989. The principal reasons for the lack of action to date seem to be the lack of centralized responsibility and follow-up and extremely cumbersome bureaucratic procedures.

  In 1990, SAL IV addresses these issues again. Undisputed 1986 cross debts are still largely unsettled. The new net cross debt (19 billion) that has accumulated since 1986 will be inventoried and canceled or settled in the next several years.

- **Progress in reforming the sector seems to have been measured by the meeting of formal and oversimplified targets** (usually quantified). Serious qualitative analysis of whether institutional strengthening was really occurring did take place. But the use of quantified performance measures, arising out of the need to devise objective conditionalities, tended to dominate the supervision exercises. Much ritualism in evaluation ensued: had the agreed number of contract plans been signed, or the agreed number of public enterprises privatized? Such questions took center stage. Questions about whether what was being done made sense seemed to get pushed aside, except in analyses done outside the regular supervision process, such as the Nellis work on contract plans and the 1989 *Parapublic Sector Review*.

Dilution of Conditionality

The incentives and time pressures that arise in a conditionality-laden environment do not encourage either side (World Bank or GOS) to restructure faltering reform measures; they encourage instead the invention and approval of makeshift adjustments, measures of pro forma compliance that will keep the money spigots open.

- One of the conditions of second tranche release in SAL III was that the GOS offer for sale shares in 10 PEs by September 1987. In fact, nothing had been done by the due date. The GOS met the condition by announcing in the local press that 10 enterprises were for sale. In fact, none were really ready for sale, in the sense of having complete dossiers — recent audits, asset valuations, and so on. Even the decision to privatize the firms in question had not been fully discussed within the GOS; later reflection led to removal of the two largest enterprises from the list. The Bank in any case accepted the announcement of intention to sell as equivalent to putting up for sale, and thus as meeting the condition for tranche release.

- A condition of third tranche release in SAL III was that the GOS meet its financial obligations to the PEs as agreed in signed CPs. The GOS could not raise the sums involved from available budget resources. Instead, as the deadline for third tranche release approached, it unilaterally reduced the amounts "committed" and the Bank accepted payments of these lower amounts as meeting the condition for disbursement.

Overcommitment to Contract Plans

As already underscored, a major reason for the poor record on PES reform is the reliance on CPs as the main vehicle for enterprise improvement. Senegal became in the 1980s the world champion user of contract plans; between March 1981 and May 1988, contract plans were signed in nine enterprises, three of which were on their second rounds. Eight CPs were under negotiation in 1988/89, and 10 more were officially planned. This total of 30 CPs is far more than exist or are planned in any other country.[10]

The basic idea of the CP is deceptively simple. The rights and duties of the GOS (as owner) and management of PEs should be clearly spelled out and put to paper. This increases dialogue, eliminates the problem of unclear or conflicting PE objectives, diminishes the interference of oversight agencies, and helps ward off claims from various stakeholders in the enterprise. The PE management undertakes to meet explict targets in production, pricing, and employment. The GOS, on its side, commits itself to pay off arrears, pay its future bills, allocate agreed-to subsidies, finance a given level of investment, and grant tax relief and other privileges.

The record of CP implementation in Senegal is poor. Nellis has analyzed experience up to mid-1988. He points out that only one of the first five CPs was carried through to conclusion; two others were negotiated but received no financing, partly because their investment program depended on funds from SAL I, which was canceled in 1983. Two others were never negotiated. And later CPs suffered from delays and from weak implementation — the failure of the GOS to honor its financial commitments being the most commonly cited.

In some cases, the CPs were inconsistent with general policy guidelines. For example, the 1986 Letter of Development Policy states that fertilizer subsidies should be granted only on cash sales, but the textile company SODEFITEX *lettre de mission* (LM) for 1985/86-1988/89 allows distribution on credit to be repaid at harvest by deduction from the producer price of cotton. SODEFITEX also continued to support grain prices in its zone of operation, which was no longer government policy. Also, the investment programs presented by this agency in its CP were unreconcilable with the parallel Ministry of Rural Development budget submissions via the Public Investment Program (PIP).

In other cases, especially in the rural development agencies, the CP programs were inconsistent with at least the spirit of government policy. SODEVA (Société de Développement et de Vulgarisation Agricole) was supposed to wither away after 1985. Its 1986 LM, however, was extremely ambitious in terms of production, training, and other targets. It also continued to have credit funds much larger than those of the agricultural credit fund (CNCAS), which was supposed to become the agency responsible

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[10] Nellis, ibid., p. 60.

for rural credit. And SODEVA's investment projects were linked imperfectly to the "regular" budget process; project costs as given in SODEVA's LM investment program were much different from the costs of similar projects included in the PIP.

The bottom line is that performance indicators show little improvement in firms with CPs (though participants claim that improvements have occurred), and management autonomy has not significantly increased. Nellis says: "the interim conclusion must be that the experience has not produced the desired results" (p. 54). He and others cite many reasons to explain the paucity of results.

- The negotiation/coordination workload was extremely heavy. One CP went through nine drafts over a two-year period. None of the CPs scheduled for signing in 1986 was signed on time, and many that were signed shortly became inoperative.

- Managers were sometimes ordered to sign the agreements even when they disagreed with major provisions. Government representatives were reluctant to make financial commitments that they were not sure could be respected. But they signed in large measure because disbursements of aid money were conditioned on approval.

- The CP supervisory unit in the President's Office (now the DRSP) was weakly staffed from the start. Major disturbances in enterprise circumstances went undiscussed for months.

- Government often made financial promises it did not keep, whether to pay off arrears or upcoming bills for PE services like water and electricity, or to make promised budget transfers.

This last factor receives the overwhelming share of the blame for the disappointments of the CP program. Nellis, for example, notes the many factors at work, including deficiencies inherent in the general budgetary system and financial management. But he repeats the findings of a 1986 Dakar seminar: "the Government's failure to pay is the problem . . ." (p. 49).

The Bank held this view so strongly that SAL III (1987) made GOS payment of its obligations under CPs a condition of second tranche release. But, as noted earlier, noncompliance threatened to hold up disbursement. The DRSP's March 1988 progress review listed each of the active CPs, along with statements like the following: "only 50 million CFAF have been inscribed instead of the 550 million initially proposed; . . . the operating subsidy of 300 million has not been executed; 231 million should have been transferred . . . 186 million have been received."[11]

To satisfy the condition for tranche release something had to be done. The "solution" found was for the GOS to unilaterally reduce its commitments under the CPs, pay them, and declare that it had met its commitments. The Bank agreed, and released the money. Among other consequences, this experience nurtured a growing cynicism about the meaningfulness of CP negotiations.

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[11] Nellis, ibid., pp. 51-52.

Some PE managers in Dakar say openly that the CP process is not worth the time and effort it absorbs. Many Bank staff and other parties have serious reservations, but continue to support the concept. They tend to see the problem as "more one of implementation than design. . . ."[12] Few are ready to dismiss the concept of the contract plan. But the Senegalese experience suggests plenty of reasons for doing just that.

Flaws in the CP Process. The CP concept suffers from certain basic flaws that have been noted by other observers. Thus, **in its detailed variant**, such as the French government tried in its early CP experiments, **the CP is too sensitive to exogenous changes to be of much use.** Where the economic environment is unstable, as in commodity-exporting countries, or where internal and external economic uncertainties are great for any reason, it is not appropriate. Corporate plans have to be general and flexible — less operating plans than statements of corporate strategy and contingency thinking. This lesson of the first round of CPs in France has been confirmed in Senegal.

It is obvious, similarly, that **when budget systems are not well structured, "contractual" relationships agreed to by the state are frequently unmet.** Capital expenditures in the government's budget estimates are among the first to be cut when there are revenue shortfalls or payments problems from other sources. No GOS commitments are sacrosanct, except perhaps salary payments to established civil servants. The notion that PEs should get special budget privileges or protection because the government had negotiated a CP represents a misreading of how the budget process works. Thus, one of the fundamental contradictions in the CP process is evident: governments that cannot make real commitments are not credible negotiators, and frequent nonpayment makes the setting of PE performance objectives that depend on payments an exercise in futility.

Even where these overall deficiencies in financial management are minimal, **it is not at all evident that the CP is the best instrument for addressing problems of poor PE performance.** The priority given to CPs reflects an assumption that the chief problems are those that are best attacked by negotiation between the enterprise management and government. But, for many issues, that is not the right level for problem resolution. Many are better dealt with at the enterprise level, without involving government. Rehabilitation plans for troubled enterprises, for example, should focus on internal management deficiencies and market and technological environments before discussing resource needs with government. Nothing prevents management from strengthening its Board of Directors. Basic management improvements — better accounting, budgeting, and investment planning and programming; development of performance indicators; strengthening of personnel management arrangements, including staff grievance procedures; and many others — are best addressed at the enterprise level.

There is thus no obvious reason why extensive elements of corporate strategy and related action plans cannot be developed autonomously — that is, at the enterprise level. Many kinds of cost-reducing action do not require government approval, and PEs operating in commercial markets may need no government input to exploit markets more effectively or to adopt new technology. In cases in which investment funds are required from the state budget, some vetting machinery is needed, but evaluation of investment proposals is certainly better done elsewhere than in a contract plan negotiation.

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[12] Nellis, ibid, p. 75.

If many problems are best addressed by management alone, at the enterprise level, others require a broader set of actors than is brought together by the CP process. A classic case is SOTRAC, the urban bus company. The CP process failed to address the most fundamental issue in urban transport policy: the appropriate mix between public and private carriers. Private carriers, notably minibuses, vans, and taxis, already carry a major share of Dakar's passengers. In the early 1980s, the minibuses, known as *Cars Rapides*, numbered about 650, while SOTRAC had about 450 (larger) buses. The private minibuses however did 40 percent of all passenger trips in Dakar — twice the share of SOTRAC. And they did so efficiently, and without need for subsidies. SOTRAC is much less efficient, and is heavily subsidized, including large indirect subsidies (duty-free import of vehicles and parts, and tax-free gasoline). Despite studies that demonstrated the economic advantages of restricting SOTRAC to main routes, or even of letting SOTRAC wither away and allowing private carriers broader access to the market, SOTRAC purchased a sizeable number of new buses in the late 1980s. This costly decision took place while a CP was being negotiated, but it seems that it was ignored by the negotiators of the CP. Moreover, since it was financed by external loans, for which evaluation procedures are poorly structured, it received little serious evaluation by any of the relevant screening agencies.

In this case, the main policy question — the appropriate scope of SOTRAC's activity — was a transport sector question, for which the CP does not provide the right forum for analysis and debate of the issues. The discussion in the SOTRAC CP negotiations, as in the others, was dominated by debate over SOTRAC's financial "needs"; the public-private mix issue was virtually ignored. Paradoxically, one of the original rationales (or hopes) that Bank staff gave for introducing the CP process was precisely that it would allow reasoned debate over such decisions. It has not worked out that way.

Organizational problems arise at different levels and they are best resolved if they are negotiated at the "right" level. A shop-level grievance, to take an example from industrial relations, is best handled by local unions and managers, not by national unions and employers' associations, or by government arbitrators. The CP has been stretched to cover most PE issues. But many of these would be better left to enterprise-level action and others to a level that gives sectoral and national economic considerations fuller voice on enterprise decisions. Such matters as resolution of cross debt, which involve the whole PES sector, are best handled at the PES level. The way the CP has evolved, its major concern has become the financial relationships between the enterprise and the state. But even here it became evident that this was not an enterprise-level issue, nor even a sector-wide issue, though Bank staff and others have made much of the need to know aggregate commitments, on the plausible grounds that government cannot know how much to "commit" to each PE without knowing what the others "need." However, this is really an economy-wide issue, best resolved in the framework of national expenditure programming.

We begin to touch here the most critical flaw in the CP concept. The CP is based on the belief that it is both feasible and desirable for government to commit itself financially to PEs in the framework of CP negotiations. We have already touched on the feasibility issue. Budget requests in the public sector are all treated the same way — usually cut across the board. In Senegal, as in many countries, spending agency requests for new money invariably vastly exceed what is available; budget directors routinely put in the budget only a tiny percentage of what agencies ask for. Moreover, spending agencies routinely receive actual allocations that are less than budgeted; capital budgets are particularly vulnerable to cuts when revenue or liquidity pressures appear. So commitments generated within the CP process are treated like other government commitments in the budget process. It is difficult to see how this could be changed, since the Ministry of Finance, and — in principle, for investment expenditure, the Ministry of Plan and Cooperation — are supposed to make allocation decisions according to national political and economic priorities. And it is not realistic to expect that CP-generated commitments would be given a priori priority.

The cornerstone of the CP idea then — firm financial commitments to PEs — is not feasible. This has been implicitly recognized by those who note the deficiencies of the Senegalese budget system — Nellis, for example, in his paper on the contract plans. But what is less commented upon is the fact that firm commitments by government would also be **undesirable**. The process by which the financial "needs" of PEs are determined is not characterized by a screening system that is stronger, more economically rational, than that which characterizes the regular budget process. In fact, PES investment decisions seem to receive even less evaluation than those in the general Public Investment Program.

The expenditure programming process in the PES is severely deficient. Requests for new money, first of all, are always highly inflated. This problem begins at the program initiating level. Projects and plans for individual PEs are drawn up by technical staff, often expatriate consultants, who have no incentive to be modest in their plans for the enterprise. Where these plans are part of CP negotiations, they are inflated as a negotiating device. There is nothing to be lost, after all, by inflating requests. And indeed, in a system where willing foreign donors might be found to finance any program, the incentives strongly encourage escalation of program requests.

The vetting process, which should sort out priority needs from others, is extremely weak. The requests are first reviewed by the technical ministry to which the PE "belongs." But nobody there has any interest in trimming expenditure requests. At least until very recently, no credible expenditure envelopes existed, so there was no point in even symbolic trimming. On the investment project side, the links between the CP process and the public investment program are loose and uncertain. So proposed investment and subsidy programs pass through the technical ministry without critical review. Nellis notes that, according to his interviews in Dakar, "technical tutelle ministries almost always approve, without question or deletion, whatever proposals are put forward by the consultants/enterprises . . ." (p. 36).

Who, then, defends the public purse and tries to assure overall economic rationality in expenditure programming for the PES? Not the traditional watchdogs — the Finance Ministry and the Plan — but rather the PES oversight agencies, the DRSP in the Presidency and the Parapublic Sector Cell in the Ministry of Finance. But these agencies lack the manpower and competence to properly evaluate expenditure requests. Moreover, they have to do so outside the main budgetary process. And by the time the CP reaches them for approval, it has accumulated lots of political momentum. Its components may already have found foreign promises of support. And on top of all this, the signing of CPs is a frequent conditionality imposed by the World Bank and other donors.

The point should be clear. **If budgetary commitments made in the CPs were to be earmarked, as requested by the World Bank and others, the probable result would be a deterioration in the quality of public spending.** PE expenditure programs and projects are probably less well formulated and are almost surely less well screened than the central government projects inscribed in the PIP.

For all the reasons outlined above, the contract plan as it has been used in Senegal is not the right instrument for the task it has been given, and reliance on it has been too heavy. Without external advocacy and financial support, it is probable that emphasis on contract plans would have evaporated years ago, replaced by a less Cartesian approach. The role of the CP seems to be shrinking anyway; in June 1989, there were only three active CPs (SONATEL [telecommunications], SOTRAC, and SENELEC [electricity]) and three LMs (SAED [Société d'Aménagement et d'Exploitation des Terres du Delta], SODAGRI [Société de Développement Agricole et Industrielle], and SODEFITEX). Nine PEs were drawing up rehabilitation plans without CPs.

The Bank should more fully recognize what these trends assert, and what some of its own staff have been saying — that the CP is only one of many possible tools, and that it should no longer be the vehicle of choice for PE reform, and certainly should not be an item of formal conditionality. A frank recognition of these facts would speed up the search for more suitable alternatives.

Privatization

Of the various pillars in the PES reform program — strengthening of oversight agencies, training, technical assistance, negotiation of CPs, and so forth — privatization appeared relatively late. "State shrinkage" was not an issue in the first PPTA project and was not much mentioned in the 1980 SAL I. By the early 1980s, however, it became part of the agenda in Senegal as elsewhere. In 1982, for example, the Groupe d'Etudes du Secteur Parapublic, the main coordinating entity at the time, did a review of the privatization issue and recommended that government sell its equity in five companies in which it had small (less than 15 percent) participation: SOFRIGAL (refrigeration), SAFAL (Société Africaine de Fonderie et de l'Aluminium), SENOTEL (Société Anonyme de Gestion Immobilière et Hotelière), SAFCOP (commercial fishing), and Plastiques et Elastoretres. The review also recommended sale of the government's majority shares in three tourism firms and two financial institutions. No action was ever taken on these recommendations.

In 1985 came the Presidential statement, *La Nouvelle Politique de l'Etat Envers le Secteur Parapublic*, which set out elements of a privatization strategy: divestiture of PEs with little or no public service function, by privatization if they are sellable or by liquidation if they are big money losers; privatization of some enterprises that have a public service function, if that function is marginal; and selection of some enterprises to privatize right away. The Plan of Action attached to this document specified a series of steps on privatization and liquidation, including establishment of a full inventory of PEs and a listing of privatizable companies by December 1985. The key items in the Plan of Action were either not implemented, or were implemented after delays of many months.

SAL II, signed in February 1986, included a divestiture component. By March 1986, the GOS was to adopt a list of enterprises to be privatized or liquidated in 1986. The list was adopted: 27 enterprises were to be privatized and seven liquidated before the end of the year (Table 2.6). None of this happened.

Apparently because of the slippage in SAL II, but also because of a greater emphasis on privatization in the Bank's overall reform strategy after 1986, much heavier conditionality appears in SAL III. The divestiture component specifies three actions that were conditions of second tranche release: by September 1987, the GOS had to offer for sale shares in the first set of 10 PEs (10 SEMs); by

TABLE 2.6

ENTERPRISES TO BE PRIVATIZED UNDER SAL II

	Type	Capital (CFAF millions)	% Held	
Total Divestiture				
Berliet-Senegal	Auto-Mech.	210	9.5	
HAMO	Construction	150	7.0	
SPHU-Teranga	Hotel	951	43.5	
VACAP	Hotel	960	64.5	
SAIH-Ngor	Hotel	1,405	50.0	
SPT	Services	113	13.8	
Subtotal		3,789		
			% Divested	% Maintained
Partial Divestiture				
SERAS	Food Industry	620	65.7	30
SNSSS	Salt Extraction	732	23.7	25
Dakar-Marine	Shipyard	1,225	39.5	51
SICAP	Real Estate	660	45.8	51
Subtotal		3,237		

Source: Délégation à la Réforme du Secteur Parapublique data.

December 1987, nine PEs (seven SEMs and two EPs) were to be liquidated; and, by December 1987, a second list of 10-17 enterprises to be privatized had to be selected.

The second item (liquidation) appears to have been fully implemented, though it is not clear how many are new liquidations and how many are relics from the past. But the first conditionality was implemented only on the surface: the GOS was not ready to offer shares for sale by the September target date so it simply announced its intention to sell the 10 enterprises and the Bank accepted this as complying with the conditionality. (Shortly after the announcement, the two biggest PEs were removed from the list.) Item three was also implemented: in December 1987, government had ready a list of 10 additional PEs to be privatized (Table 2.7). But no equity was in fact sold for about a year and a half.

What, then, has been done since 1985 to shrink the parapublic sector? Table 2.8 draws the record of privatization as of March 31, 1990, as given in the monthly *Activities Report* of the DRSP. Two of the nine enterprises listed (SERAS [Société d'Exploitation des Ressources Animales du Sénégal] and SNSSS [Siné Saloum Salt Company]) have not actually been sold. Of the remaining seven, two are leases; they transfer land rights belonging to defunct firms.

The economic significance of these transactions is very modest indeed. Potential budget savings are given as CFAF 411 million (about US$ 1.4 million) and proceeds from asset sales as CFAF 2.9 billion. But the table values the two leases at their net present value — in other words, their discounted future rental payments. For example, actual annual rental of the Mbour hatchery is only CFAF 6 million (US$ 20,000); it is higher for SENPRIM, but still far below the 700 million estimated present value given in the table. If we eliminate SERAS and SNSSS (which are not yet sold) and reduce the rental payments to actual first-year payments, the proceeds from asset sales and leases come to CFAF 1.5 billion, or less than US$ 5 million at 1989 exchange rates — about half the sum given in the table.

As for the nine liquidations, at least four involve formal burial of entities long dead. Bud-Senegal stopped operations many years ago, SONAR was abolished in 1985, and STN (Société des Terres Neuves) was a donor-financed project that died when financing ended in the early 1980s. COSENAM (Compagnie Sénégalaise de Navigation Maritime), which is also on the list of liquidated PEs, was a 26-percent state-owned operation that had ceased activity (shipping) in 1981 and was selling its shipping rights to foreign shipping lines.[13] In most of the manufacturing enterprises listed as liquidated, government held a small minority of shares.

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[13] It proved difficult in Dakar to obtain a list of all PEs privatized or liquidated in the 1980s. The most comprehensive estimate was made available by Control Financier à la Présidence, which stated that the following entities (acronyms only) were privatized before 1987: SONAFRIG, SNCDS, IRANSEN-SHELL, SOFRIGAL, and SORES. The same source lists 23 PEs (again acronyms) liquidated before 1987: STN, SPHLB, SONAR, SPDEGET, SNC, SIV, SISCOMA, ONCAD, CSM, SENEMETALLURGIE, BUD-SENEGAL, COSENAM, IRASENCO, ESGE, SEIB, SOSEPRA, MLASYDA, CASAMANCE EXPRESS, SENEGAL SEAFOOD, SGHCV, SOABI, and THONIERS TRANSOCEANIQUES. A number of mergers also occurred: SOFIDAK and CSCE merged in CICES, SEIB merged with SONACOS, and the Caisse d'Epargne and OPT formed OPCE. Almost all of these PEs were very small in terms of assets, employment, and impact on the budget or the banking system. Most were almost certainly nonfunctioning and had closed down previous to the liquidation decision.

TABLE 2.7

ENTERPRISES TO BE PRIVATIZED OR LIQUIDATED UNDER SAL III

	Type	Capital (CFAF millions)	% Held	
Total Divestiture				
SOTEXPA	Textile	2,750	41.4	
SENOTEL	Hotel	150	7.0	
SODEHME	Services	500	0.1	
SNPCE	Services	50	15.0	
Subtotal		3,450		
			% Divested	**% Maintained**
Partial Divestiture				
BICIS	Bank	2,500	17.0	25.0
BIAO	Bank	3,077	10.0	25.0
SONAGA	Bank	924	40.3	51.0
SINAES	Construction	190	19.7	25.0
SONED	Consulting	98	10.1	51.0
SODIDA	Services	53	32.8	51.0
		6,842		
			% Held	
Liquidation /a				
Bud-Senegal	Agro-Ind.	N.A.	N.A.	
COSEMA	Shipping	N.A.	N.A.	
SNPT	-	N.A.	N.A.	
Senametallurgie	Metallurgy	89	68.0	
SSE	Printing	100	100.0	
SEGI	-	100	100.0	
SOSEPRA	Adm. Services	30	50.3	
STN	Rural Water	N.A.	N.A.	
SONAR	-	N.A.	N.A.	

Source: Délégation à la Réforme du Secteur Parapublique data.
/a Nine other enterprises had already been liquidated.

TABLE 2.8

FINANCIAL ACCOUNT OF PRIVATIZATION OPERATIONS
(in CFAF millions)

Company	Potential Budget Savings/a	Asking Price	Sales Proceeds
FERME AVICOLE MBAO (chickens)	0	100/b	100/c
RENAULT-SENEGAL (truck assembly)	0	41	45
SENOTEL (hotels)	0	16	24
SERAS (livestock/slaughterhouse)	0	406	406/d
SPT (publicity)	40	0	95
SNSSS (salt)	0		600/e
SENPRIM (truck farming)		941/f	700/g
SIDEC (cinemas)		141	131/h
VACAP (hotels)	371	1200	810
TOTAL	411	2845	2911

Source: Délégation à la Réforme du Secteur Parapublic, "Désengagement de l'Etat, Rapport d'Activités Mensuel," March 31, 1990.

/a Includes subsidies, operating deficits, and other state obligations.
/b From the credit evaluation report, modified by the Direction des domaines.
/c Value of the annuity based on 18 percent over 30 years.
/d On top of superdividends that will be paid following the preparation of financial status.
/e This includes the dividend received by the state and the taxes on the dividend paid to the Salins du Midi collected July 3, 1989.
/f Assuming land sale at CFAF 459 million.
/g CFAF 232 million in for-cash sales; CFAF 468 million represents the current value at 8 percent per year of the annuity to be received for 50 years, assuming the land is rented and not sold.
/h This transaction includes 6 of the 33 theaters for sale.

How can this thin record of achievement be explained? The reasons are the same as those that explain slow progress in privatization in most low-income countries, and are well known by now.[14]

- Most governments in low income countries are reluctant to sell profitable PEs and the money losers they want to sell are unattractive to buyers at prices or terms that governments are ready to accept.

- Sale of state assets has a limited political constituency. A few reformers and some potential beneficiaries favor it. But most groups are against it: workers who fear for their jobs, officials who see loss of influence and quasi-rents, students, university professors, and intellectuals who fear that sales of state assets simply transfer wealth from the state to the rich and powerful.

- Many influential Africans see "recolonization" in the selling of state assets to foreigners. Politically vulnerable governments insist on restricting sales to citizens. As a result, the number of possible buyers is much reduced. This problem is exacerbated by weak capital markets and financial system disarray.

- Governments find it hard to accept the idea that the value of assets is their earning power, not their book value or original cost. So they tend to fix too-high prices on privatizable companies and shares.

- Governments in low-income countries, especially in Africa, are extremely reluctant to take actions that increase unemployment. Given the endemic overmanning in PEs, disemployment is an inevitable short-term consequence, and often unacceptable.

- Governments in low income countries have generally done a poor job of convincing their people that the ultimate benefits of privatization — mobilization of savings, increased productivity, growth in income and jobs — will outweigh the costs. Benefits are often distant, vague, and uncertain; costs are clear and immediate.

- The mechanics of selling the state's equity in PEs, or whole companies, takes time and careful preparation, especially if transactions are to be transparent and honest, and are to avoid giveaways at fire sale prices.

- Governments often do not allow PE bankruptcy; their obligations are regarded as state obligations. This deprives the system of a simple way to dispose of claims on assets.

All of these factors have been at work in Senegal. The recent (1988) World Bank *Parapublic Sector Review*, stressed the following points:

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[14] See E. Berg, and M. Shirley, *Divestiture in Developing Countries*, World Bank Discussion Paper # 11, 1987.

- The choice of enterprises to offer for sale was "haphazard" and included many that were not really privatizable;

- In many cases, the state is offering only part of its holdings. But retention of shares creates fears of continued government interference and reduces interest of buyers;

- Asset valuation, which is the work of consultants, has tended to be too high. Two offers to buy SONADIS were rejected as too low, and the offer of shares in the Sine Saloum salt company attracted no potential buyers;

- There is an unwillingness to let buyers fire workers. This happened in the SONADIS case;

- The private sector is excluded from involvement in the privatization process. No private sector people sit on the Commission Spéciale de Suivi du Désengagement de l'Etat, which oversees the process. Management of PEs is also often excluded; in the cases of HAMO (housing), SPT (advertising and tourism), and SPHU (hotels), management was simply informed that privatization was coming, and heard nothing further;

- Poor preparatory work was a factor. Proper audits have not been done on all the companies listed for privatization. The DRSP, the staff agency responsible for privatization, was thinly staffed until 1988, and despite some reinforcements, is still weak;

- Potential investors are few. The local insurance companies, which might have played a role, were pressured by the GOS in 1987 to bail out the BCS, a near-bankrupt bank, by purchasing equity of 2-3 billion CFAF. This investment appears to be lost; institutional investors as a group have been scared off by this experience. The present disorder and related lack of liquidity in the banking system reduces financing capacity for privatization transactions; and

- While pro-private-sector rhetoric has expanded, and often reflects true changes in attitudes, many responsible officials still remain *dirigiste* and unfriendly, and inhospitable policies persist: continued regulation, government unwillingness to give up full ownership, and maintenance of pressure on institutional investors. The general climate remains uncongenial to private enterprise.

The experience with the Siné Saloum Salt Company, the first PE to be offered for sale, is illuminating. Government owned 49 percent of the shares of this profitable operation. But when, in October 1988, it advertised its readiness to sell, only three offers were received, none of them acceptable. One reason is that the company's profitability was declining, due to competition from informal sector salt producers. But deficiencies in procedures and policies were important. Government proposed to sell only half its holding of 35,000 shares, 9,400 of them by competitive bidding, at a book-value-determined fixed price of CFAF 45,000 a share. Buyers had to take a minimum of 723 shares. A maximum of 2,169 shares could be bought by foreigners. This was too little to be of much interest to foreign buyers, and few Senegalese could finance the minimum volume of purchases. The price was too high anyway, given the sharp deterioration of revenues and earnings since 1987. Other factors were the inadequacy of the pre-sale publicity and the tight deadlines imposed on potential buyers (one month). Government's shares remain unsold, as of the spring of 1990.

The results of the effort to sell movie houses are also illuminating. There are 72 cinemas in Senegal, 36 of them state-owned, grouped in the PE known as SIDEC. Government put its nine best cinemas up for sale. Only two of these attracted buyers; actual and potential cinema owners judged the rest to be unviable. Instead of selling the two for which offers had been made, the DRSP decided to sell only packages of cinemas, on the grounds that to do otherwise would allow "creaming" and no sales of the low-volume units.[15] The underlying assumption seems to be that cinemas should be kept operating even where they are unprofitable. It is easy to see why politicians might push this line, but not clear why it should be adopted by the officials responsible for privatization. The economics underlying this policy are obviously flawed. It reduces the demand for private purchase of cinemas by raising prices of those that are sellable; the tied purchase idea will lead only to offers of lower prices for the profitable units. In any event, six cinemas have found buyers.

Experience thus far with privatization of ownership in Senegal, which mirrors experience in most other low-income countries, suggests that it is a nonstarter in an externally driven reform program. Government is unenthusiastic, to say the least. Political costs and risks are substantial, given the absence of a domestic constituency for this policy. Political benefits are mainly external (enhanced attractiveness to donors), and even these are not large, since donor attachment to the privatization idea is uneven.

Nor are economic benefits likely to be substantial. The enterprises put up for sale or proposed for liquidation have been few in number, small in scale, and not strategic in any sense. The budgetary drain is little affected by these transactions, since the main sources of these hemorrhages are not the enterprises put up for sale. Many are already closed in fact, and others would fade away given a little benign neglect. Even when the authorities are willing to give up all their shares, increases in efficiency are likely to be diluted by persistence of monopoly conditions in product markets and continued regulatory obstacles. Moreover, the preoccupation with transferring ownership can lead to giveaways in terms of special privileges, which make privatizations financially attractive to buyers but reduce their economic benefits for the society.

This suggests that World Bank and also USAID preoccupation with privatization of ownership has been excessive. Worse, the inclusion of asset transfers and liquidation in SAL conditionality uses up good will among local policy makers — a sparse commodity already after three SALs and a decade of tendentious policy dialogue. And although concerned Bank staff members know there are more promising avenues of privatization — notably by subcontracting and other forms of fragmented divestiture — little is done in that direction. This is so in part because ownership privatization dominates the dialogue and in part because the staff and mandate of the DRSP, the Senegalese agency responsible for framing and implementing policy in this area, is strongly oriented toward this kind of privatization.

[15] Délégation à la Reforme du Secteur Parapublic, "Etat d'avancement des divers dossiers," June 15, 1989.

It is therefore disappointing to see that SAL IV appears to offer only the old model, on a grander scale. It continues to emphasize selling and liquidating PEs, though with improved instruments — more and better TA for the DRSP, private sector participation in divestiture decisions, the preparation of a strategy paper touching on such questions as foreign participation, fiscal and regulatory incentives, and rules on government ownership shares. Aside from this, the program looks distressingly familiar, only much bigger. Thirty enterprises are to be privatized during SAL IV, of which 20 are leftovers from SAL III, and at least 10 are to be liquidated. These actions are part of core conditionality, linked to tranche release.

Bank staff say that this program is not imposed, and that it is now "owned" by the Senegalese authorities. If so, it would make a big difference in the program's prospects. Evidence of new commitment and reduced political resistance is not at hand, however. In any case, the new program at least addresses one of the criticisms of the previous privatization efforts — that they were trivial, affecting only a tiny part of the sector. The enterprises earmarked for privatization in SAL IV represent GOS investment of 18 billion CFAF, or some 11 percent of total government equity in the PE sector — five times more than in SAL III. About 7,500 workers are employed in the targeted enterprises, 25 percent of the sector total. However, this apparent great leap forward may be misleading, because of the inclusion of a few large enterprises such as Dakar-Marine. And even with full compliance, operating subsidies would only be cut by 5 percent from their 1989 level. It will be clear by 1991 just how much privatization the GOS has bought and is able to implement.

V. CONCLUSIONS

Many of the problems addressed in SAL IV were the subject of the World Bank's First Para-Public Technical Assistance Project in 1977. Others were raised as early as 1982. It was not evident, in 1989, that the public sector was less overextended, the financial management of the sector improved, the oversight arrangements significantly more orderly and effective, the internal management appointed less commonly on political grounds, or that PEs were more autonomous and efficiency driven. Many important new steps were taken at the end of 1989, and more are promised in SAL IV. It may be that a corner has been turned and that the pace of reform will quicken as the SAL IV provisions promise. But on privatization, on contract plans, and on other issues, changes are few.

Many of the sources of the poor showing of the 1980s are general — that is, not specific to the PE sector alone. They are factors that have held back the overall adjustment program: reluctance of the Senegalese authorities to face the short-term political costs and risks involved in implementing many components of the adjustment program; bureaucratic foot-dragging, normal in all administrative reforms; the soft budget/soft sanction environment that allows Senegalese actors to persist in programs and practices that would not be possible in a more severely austere macroeconomic setting, or one where a genuine danger existed that nonperformance would lead to aid reductions.

In this chapter we have not dwelt on these underlying obstacles to reform, but rather on donor shortcomings, and in particular deficiencies in reform strategies and tactics of the World Bank, the chief designer and implementer of the public enterprise sector reforms, since these are most amenable to improvement. We pointed out questionable aspects of diagnosis and missteps in implementation that have contributed significantly to the reform failures. The Bank in early years gave too much emphasis to the oversight agencies at the outset and did not systematically address the ensuing administrative diffusion and ambiguity until SAL IV. The Bank seized on the negotiation of contract plans as the major device for clarifying state/PE relationships, despite the plans' untested nature, and their unsuitability in economies marked by weak budgetary management. And the Bank seized too energetically on the privatization issue for which there was no local constituency, and which is tendentious, costly in terms of local goodwill towards the adjustment program and unlikely, in Senegalese conditions, to bring significant structural improvements. And over the whole period, the Bank continued to impose heavy conditionality without willingness to impose sanctions when the GOS failed to comply with the spirit, and often with the letter, of the adjustment program. In this they were not different from other donors. Risk-averse political authorities and reluctant bureaucrats thus had little to fear from moving slowly or not at all.

One underlying factor that cannot be emphasized enough is the essential unevenness of the battle for reform: the problems are so great, and our ability to deal with them so slight. Not many supermen walk the halls of the World Bank, or anywhere else. Yet near-supermen are often needed to deal effectively with immensely complicated problems such as PE reform, that are usually embedded in highly particular socio-political environments. Bank staff are highly competent, and often unusually inventive. But the problems are so complex, the time so limited, the need for operational "solutions" so pressing, that the reformers cannot devise original approaches. They have to grasp at ready-made formulas.[16] While hardly ideal, this can work in matters of economic policy. It is what allows IMF staff to prescribe for Burkina Faso and Hungary out of the same bottle, in most respects not inappropriately. After all, a smaller budget deficit has to be part of a stabilization program in Ouagadougou as in Budapest, and border parity is a pretty good place to start thinking about agricultural price policy reforms. But, of course, it is different for institutional-administrative-organizational reforms. Here theory is not much of a guide, and even ideology is of little use when it is a question of getting from A to B. So mortal reformers are forced to grab what is on the shelf, and on matters of administrative reform or institutional development, the shelf was pretty bare. For public enterprise reform in the 1980s, one prevailing idea or device was performance contracting (contract plans in much of the Francophone world). Another was privatization of ownership. Neither proved well suited to Senegalese circumstances.

Another explanatory factor, usually neglected, is shortcomings of supervision. Supervision is not one of the World Bank's strengths. Staff have little incentive to do it; it is not a highly regarded activity in that organizational culture. There is always danger of being a bad news messenger. In any case, there is often little continuity by those doing supervision. The result is frequent neglect of problems caused by errors in design or festering grievances on technical assistance, and long lags in making adaptations. The problem is exacerbated by the opacity that characterizes many Bank documents, such as President's

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[16] In the public enterprise sector, at the end of the decade, the *Parapublic Sector Review* provided an uncommonly intensive analysis of the problems of the sector, which allowed the elaboration of strongly focused proposals for SAL IV.

Reports and Project Completion Reports. These carefully worded, generally positive descriptions often give muffled signals about what is working and what is not, and this too impedes creative adjustments.[17]

Recommendations

Improve the budget process. Whatever the underlying sources of slow improvement in the PE sector, some shifts in strategy would increase the chances of effective reform. Greater attention to the long-term task of improving the general budget process is likely to be more productive than the continuing emphasis on firmer GOS financial commitments to PEs by negotiation of contract plans. The weak and uncertain procedures for vetting PE requests for operating subsides and investments should have first call on reformer energy and money. More attention should be given to internal management and the sectoral setting. All of this implies a more diverse structure of policy-making vehicles and a more layered pattern of dialogue, with CP negotiations taking a less central role and focusing less on GOS money commitments.

Change privatization strategy. The Bank's privatization strategy also needs changing. It is not the idea that is in question: well-prepared, transparent sales of government equity in PEs are certainly desirable. But it should be an unambiguously Senegalese program, not a World Bank imposition. Some Bank staff say this has happened, but many other observers disagree. In any case it does not warrant the priority it is given, and it has crowded out use of promising approaches based on disaggregation — internal divestiture via subcontracting and deregulation. Above all, the high-profile role of the Bank and the use of conditionality in connection with asset sales are politically and tactically risky. It certainly seems unwise to make the whole adjustment program hostage to action on privatization. The SAL IV targeting of larger numbers of PEs for privatization therefore seems questionable. A smaller, not larger, Bank role in this area should have characterized SAL IV, especially in the light of its contentious and socially explosive labor market component. It is not clear why the privatization program had to be in the formal program, and even less clear why it had to have specific conditionality.

Decrease emphasis on conditionality. The sectoral adjustment program has been marked by too much explicit conditionality. Conditionality in general is usually ineffective, often inappropriate, and sometimes counterproductive, especially in matters of institutional reform. It is inappropriate when technical solutions are uncertain. Institutional reforms of the type considered in this chapter involve problems for which evident solutions are often not at hand, and actions whose suitability can be disputed by reasonable people. In the PE reform, as in other parts of Senegal's adjustment program, deeper, quieter dialogue should have a larger place, the search for monitorable conditionality a smaller one.

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[17] It should be noted that this by no means applies to all reports. Among others, the *Parapublic Sector Review*, frequently cited in this report, required little reading between the lines.

CHAPTER THREE

AGRICULTURAL POLICY REFORM AND THE NAP[1]

I. INTRODUCTION

Agriculture is the main economic sector in Senegal. The official national accounts attribute to it only 20 to 25 percent of GDP, but this is an underestimate: output is valued at farmgate, and — in the past at least — at "official" prices, which were and are frequently much below actual market prices. Moreover, all agricultural processing is counted as industrial output. So agriculture in Senegal is much more important than it looks in the national accounts.

Agriculture is also the main source of employment, absorbing some 70 percent of the population. Given the present allocation of the labor force, a rate of population growth of 2.5-3.0 percent a year, and continuing near stagnation of modern sector industrial output (which was only about 15 percent higher in the mid-1980s than a decade earlier) and employment, agriculture will be the main employer, along with informal nonagriculture, of new entrants into the labor force. In the absence of productivity-raising structural change, rural impoverishment is certain.

According to available data, it already seems to have happened. The growth of primary sector value added fell from 3 percent a year in the 1960s to 1.7 percent in the first half of the 1980s. Population growth is said to have been 2.6 percent during most of these years, and 2.9 percent in the mid-1980s. Between the mid-1960s and early 1980s, real per capita rural incomes probably fell.[2] Both population and production data and the amount of income derived from off-farm activities are so poorly known that any such conclusion has to be tentative. But the data on production and yields (Table 3.1) do indicate very little growth in agriculture since independence, especially for the main crops, groundnuts and millet.

It is, then, no surprise that agricultural issues have been at the center of the adjustment effort in the 1980s. The World Bank's first SAL in 1980 was especially heavily concentrated on agriculture; more than a third of its 32 conditionalities were directly concerned with agriculture, and four or five others touched on it as part of broader issues — the reform of the parastatal sector, for example. The specifics of World Bank agricultural conditionality as found in SALs I-III are given in Annex 1. Table 3.2 shows

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[1] This chapter has benefitted from the comments of Rod Kite, USAID/Dakar, and David Jones of the World Bank.

[2] According to one evaluation, average rural incomes were 5 percent lower in the early 1980s than in the early 1970s. (G. Duruflé et al., "Déséquilibres structurelles et programmes d'ajustement au Sénégal," Ministère des Relations Extérieures, Coopération et Développement, Paris, March 1985.)

TABLE 3.1

AGRICULTURAL OUTPUT AND PRODUCTIVITY OF MAJOR CROPS, 1960/61-1986/87
(yearly averages for subperiods)

Yearly Averages	Groundnuts			Millet/Sorghum		
	Production (tons)	Area (ha)	Yields (tons/ha)	Production (tons)	Area (ha)	Yields (tons/ha)
1960/61-1964/65	942,180	1,031,000	0.914	442,960	871,600	0.508
1965/66-1969/70	918,450	1,109,240	0.828	544,520	1,062,500	0.512
1970/71-1974/75	761,237	1,052,712	0.723	474,401	959,987	0.494
1975/76-1979/80	962,187	1,224,937	0.785	569,147	969,104	0.587
1980/81-1984/85	746,820	1,013,480	0.737	537,980	1,014,140	0.530
1985/86-1988/89	778,425	790,625	0.985	744,675	1,106,500	0.673

Yearly Averages	Rice			Maize		
	Production (tons)	Area (ha)	Yields (tons/ha)	Production (tons)	Area (ha)	Yields (tons/ha)
1960/61-1964/65	91,620	74,660	1.227	29,280	34,800	0.841
1965/66-1969/70	116,340	90,140	1.291	42,720	54,320	0.786
1970/71-1974/75	83,304	74,928	1.112	33,066	43,396	0.762
1975/76-1979/80	100,321	72,161	1.390	46,501	57,787	0.805
1980/81-1984/85	106,840	64,500	1.656	73,260	74,720	0.980
1985/86-1988/89	144,150	75,800	1.902	122,825	103,750	1.184

Sources: World Bank, Operations Evaluation Department, The World Bank and Senegal, 1960-1987, Washington, DC, 1989; USAID/Dakar Bank Printout, September 30, 1988; and MDR, Direction de l'Agriculture, "Résultats définitifs de la campagne de production agricole 1988/89," January 1989.

TABLE 3.2

CLASSIFICATION OF SAL CONDITIONS RELATING TO AGRICULTURE

	CONDITIONS/a		
	SAL I	SAL II	SAL III
Agricultural Prices and Credit	1-4, 9 11	2, 3, 5	3, 5, 6, 8, 9
Research	6		
Institutional Change, Reorganization and Planning	5, 7, 8, 10	1, 4, 6-11	1, 2, 4 7, 10-17

Source: World Bank, Operations Evaluation Department, *The World Bank and Senegal, 1960-1987*, Report #8041, August 1989, p. 37.

/a The numbering of the conditions corresponds to that given Annex 1, which should be consulted for more detail.

the types of conditions in each of the SALs; most dealt with price problems, including inputs, and with institutional reforms.

II. DIAGNOSIS

The SAL conditionalities reflect a consensus diagnosis of what was wrong with Senegalese agricultural policies and with the country's rural development institutions at the beginning of the 1980s.

- The GOS followed price and import policies that kept prices for foodgrains so low that local production was discouraged. The low price of imported rice combined with its relative ease of cooking stimulated its consumption, at the expense of locally produced coarse grains.

- Low producer prices or — more properly — unfavorable terms of trade between farm prices and urban wages stimulated rural exodus and were also inequitable. This was so because urban occupations were not only better paid, but urban dwellers had access to more and better public services, especially health and education.

- Official prices of farm goods at both consumer and producer levels were too rigid, as were input prices. Panterritorial and panseasonal pricing encouraged uneconomic production and consumption by charging too little for transport and storage costs.

- Interventions of the various cereals procurement agencies — ONCAD, SONAR, the Caisse d'Aide Alimentaire (later changed to the Caisse de Securité Alimentaire, or CSA), and so forth — were ineffective and costly. The coarse-grains-focused agencies, notably the CAA/CSA, failed to control the market. They did not stabilize millet/sorghum/maize prices. They did not stimulate production by buying offered output at remunerative official prices. They did not "protect" vulnerable producers who must sell at harvest time to meet cash needs, since the cereals boards were almost never able to be present in the market in those critical months. Nor did they protect consumers by stabilizing prices at retail levels.

- Agricultural markets were excessively regulated. The rules on who could buy cereals, when, and at what price shifted from year to year, and were frequently unclear. Movements of more than 200 kilograms of grain across provincial borders required special approvals; roadblocks and inspections were common. And, despite all this, private traders were responsible for most of the grain trade, which took place on parallel markets. But the uncertainty and riskiness of private trade obstructed entry, raised costs, and retarded the emergence of an efficient, specialized, better-capitalized commercial class.

- Input subsidies, especially for fertilizer, were inadequate to meet demands at subsidized prices, imposed a burden on state budgets, and were ineffective anyway because of undifferentiated nutrient mixes and late delivery.

- The state was overextended — in agriculture even more than in other sectors. Public sector agencies were responsible for rice imports and their internal distribution, price fixing of most rural inputs and outputs, production and sale of inputs, agroindustrial activity (processing), and purchase and transport of most crops. Most of these functions were performed inefficiently and at high cost to the public purse.

This last factor was particularly crucial in Senegal.[3] During the quarter century after independence, Senegal, like all Francophone states in West Africa, had relied on three main types of rural development institutions. At the base was the cooperative movement, which was given major responsibility for primary marketing of export and food crops, and for the administration of credit for input purchases. Input supply entities like SISCOMA (a producer of agricultural implements) and the national agricultural bank subsidized credit. The Sociétés Régionales du Développement Agricoles (regional rural development agencies, or RDAs) were the third leg in the system; they were responsible for crop marketing above primary levels, agricultural extension services, and crop-related credit and other inputs. They concentrated usually on export crops, but by 1980 were active in food crops too.

In the late 1970s, this "traditional" institutional structure began to unravel. Certain fundamental problems have always plagued the cooperative movements in Senegal, many of them familiar elsewhere in poor countries. Most of the cooperatives are artificial bodies, created by the GOS to serve administrative functions, mainly marketing of outputs and inputs. They confront formidable obstacles: lack of literate leadership; few sources of revenue; and an unfavorable economic environment — for example, being required to pay official producer prices when market prices may be higher or lower. Also, Senegalese cooperatives have always faced a basic organizational problem. If supervised and controlled from the center, their local initiative and leadership evaporates. If given real autonomy, local "notables" tend to take over, usually distorting the purposes of the cooperative. The highly hierarchical character of social relations in the groundnut basin heightened this dilemma.

These problems, never absent, intensified in the 1980s because of the breakdown in rural credit systems and because of the growth of parallel markets in which higher prices generally prevailed. Many rural credit institutions collapsed in the early 1980s. In Senegal, credit in the groundnut basin was tied in with input supply via ONCAD, the main RDA in that region. In the 1970s, government declared debt moratoria or forgiveness four times. This severely diminished farmer incentive to repay debts. But in Senegal (as elsewhere) this incentive was already weak for other reasons: lack of membership loyalty to the cooperative; inefficient administration and corrupt behavior by some cooperative staff, which meant that many farmers (or government officials) did not know how much they owed; and technical advice that was often inappropriate, which meant that farmers felt they had been misled, hence had little obligation to repay.

It was the same with the other pillars of the rural organizational structure. In 1980, input supply and credit systems were fading. This was partly because of previous mismanagement and the shrinking

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[3] The following paragraphs draw on E. Berg, "Cereals Policy in the Sahel: Reform and Current Issues," in *Seminar on Food and Nutrition Strategies, Concepts, Objectives, Applications*, Brussels, November 3-7, 1986 (proceedings edited by R. Delleré and J.J. Symoens, Royal Academy of Overseas Sciences, Brussels, 1988), pp 323-324.

availability of domestic credit. But it was also because of the more fundamental reasons reflected in deficit operations and low repayment rates — notably high transaction costs, concentration of risk, complexity of administration, and inappropriate technology. SISCOMA, the parastatal implement manufacturer, went bankrupt in 1979. When ONCAD was liquidated in 1980, the credit and fertilizer distribution system it ran had to be reconstituted.

The RDAs ran into many of the same problems that plague PEs in general: conflicting objectives, political intrusion, staffing and managerial inadequacies, and so forth. They became favored targets of politicians looking for possibilities of increasing employment. They therefore developed highly inflated payrolls. But some also had inadequate technical packages, imposed price policies that discouraged production, and over-bureaucratized relations with the peasants they were supposed to serve. By the early 1980s, most of these agencies were operating at heavy deficits, highly dependent on foreign financial support, and delivering uncertain or superfluous technical advice to an increasingly disaffected peasantry.

III. OBJECTIVES AND PRESCRIPTIONS

Prescriptions

Out of the broad consensus about what was wrong with Senegalese agricultural policy and institutions, a widely shared set of policy prescriptions emerged in the late 1970s and early 1980s.

- Producer prices should be raised, for both export and local food crops, to stimulate production, slow rural exodus, and reduce urban bias in income distribution. Above-market and stable floor prices might be necessary to achieve these objectives.

- Protection should be given to local cereals production. In practice this means restricting rice imports and keeping the consumer rice price at a level high enough, absolutely and relative to local coarse grains prices, to encourage substitution on the demand side and higher production on the supply side.

- The role of the state should be reduced, that of the private sector encouraged, and public sector resources should be used better — by improving the efficiency of the RDAs and other institutions active in agriculture, such as SONACOS, the CPSP and the CSA, and by strengthening investment allocation and implementation of agricultural projects.

- Agricultural markets should be made to function better, by increasing the availability of price and other information, and, more importantly, by removing regulatory obstacles and distortions such as subsidies on fertilizers, irrigation water, and tractor services.

This consensus set of prescriptions, like the diagnosis on which it is based, operated on a general level only; it became less firm as specificity increased. Disagreements existed within the GOS: the Ministry of Rural Development (MDR) was always perceived as antireform, and the Ministry of Finance (MOF) as the reform champion. Even sharper disagreements existed within the donor community (not to speak about differences of viewpoint within each donor agency) on at least four key issues: the desirable or optimal level of rice prices at the consumer level, the desirability (or optimal timing) of fertilizer subsidy removal, the appropriateness of establishing floor prices for coarse grains, and the desirability and/or feasibility of state disengagement from rural service provision. We return to these differences below.

Three donors led the dialogue in the 1980s on agricultural policy reform: the World Bank, the French aid agencies (especially the Caisse Centrale), and USAID. The European Economic Community has joined the sectoral debates, as participant in the new agricultural sector loan under negotiation since 1988. The policy instruments of USAID are discussed in detail in Chapter Five.

World Bank Role

The World Bank was the lead player, explicitly in the first SAL (1980-1983), informally between 1983 and 1986, then explicitly again in SALs II and III. The Bank's program reflected more or less integrally the general consensus sketched above. Its global objectives for agricultural reform were to raise the agricultural growth rate; increase productivity of resource use in the sector; and raise rural incomes, both absolutely and relative to urban incomes.

These objectives were to be reached by the policy changes described earlier: incentive pricing for agricultural goods; higher tariffs on imported rice; floor pricing for local coarse grains; better processing of local cereals to make them more competitive with rice in terms of ease of preparation; liberalization of cereals marketing, except for paddy; gradual removal of fertilizer and other input subsidies; *responsabilisation* of farmers by self-storage of seed and more active farmer organizations; reduction of the role of the state by privatization of rice imports and shifting of RDA services to private actors; and technical assistance to the MDR in project preparation and policy analysis. These policies are set out in the matrices of the three SALs, which are reproduced in Annex 1.

The GOS formally signaled its acceptance of these general policy orientations in its Nouvelle Politique Agricole (New Agricultural Policy, or NAP) announced in 1984, and in its Cereals Plan, issued two years later. The principal themes incorporated in these documents were: emphasis on import substitution of cereals to attain greater food self-sufficiency, liberalization of input markets and gradual removal of subsidies on fertilizer, and transfer of functions from state agencies to producers and other private actors.

The emphasis up to now has been on points of agreement without reference to shifts in positions over time. In fact, policy emphasis changed significantly over the decade, and differences persisted within the ranks of the main players. There were also changes over the decade in the way the dialogue and program implementation were carried ou' Awareness of these differences aids understanding of the reform process. Many observers tend to see in policy dialogue a largely monolithic World Bank engaging a divided client government. The 1989 internal evaluation of the Bank's Senegal operations leans this way; it sometimes attributes policy positions to "the Bank," which in reality are those of individuals, who may reflect only minority opinion.[4] But of course the Bank, like the GOS and other actors, is a collection of individuals or bureaus with heterogeneous policy inclinations. The detailed definition of the policy agenda and its negotiation and implementation are the work of an agglomeration of individuals, often with divergent views. It should not be surprising if inconsistencies appear or positions are redefined. This is especially so since the individuals speaking for the Bank are transient.

Shifts in Bank Majority View

Over the period of the 1980s, majority views within the World Bank have shifted in important respects. One is the relative weight given to **price and nonprice factors**. In the 1970s and early 1980s, prices were not stressed much; the accent was on technology, research, extension, and integrated rural projects in general. From SAL I onward, the relative importance of price policies increased. Specifically, increasing priority was given to the role of rice pricing, or, what is almost the same thing, the degree of protection to be given to local coarse grains.

This protection issue was a second element on which positions changed; indeed, it became an unusually contentious issue within the Bank. Bank research staff, drawing on a multimarket modeling exercise by A. Braverman and J. Hammer, challenged the suitability of the "protectionist" position, which operating staff had adopted in concert with other donors. By the late 1980s, the concept of demand management via a high price for imported rice — the very pillar of cereals policy over most of the 1980s — was no longer supported by the Bank. What is supported has not always been clear. A new internal consensus had seemed to exist around the idea of border parity pricing, with protection to offset the overvaluation of the CFA franc and some smoothing to avoid excessive fluctuation. But the Bank, in the agricultural sector loan negotiations, has joined with the other donors in favor of some additional protection.

The Bank's position evolved in another key aspect of price policy: what to do about guaranteeing remunerative levels and acceptable stability for coarse grain prices. Most Bank staff concerned with Senegal in the mid-1980s favored replacement of previously existing official prices with a less rigid system of floor pricing. The GOS would then intervene only to prevent prices from plunging. The establishment of acceptable mechanisms for floor pricing of cereals was indeed part of SALs II and III, and was even noted in recent Policy Framework Papers. But by the late 1980s there was no well-defined Bank position on this matter, with some staff favoring light intervention to smooth seasonal or annual fluctuations, and others calling for no interventions other than those necessary for security stock sales and purchases.

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[4] World Bank, Operations Evaluation Department, *The World Bank and Senegal, 1960-1987*, Report #8041, August 1989. This is the case in their discussion of policy toward irrigated agriculture, for example. The authors say that "the Bank" shifted ground on support for the big dams on the Senegal River. But Bank staff concerned with Senegalese agriculture in the late 1970s were consistently opposed to Manantali on strongly argued cost-benefit grounds. And senior management supported those in opposition, which took some considerable courage in the face of the political pressures pushing for Bank support.

Views concerning the role of parastatals in agriculture also changed. The Bank supported their expansion in the 1970s and this perspective carried over into the early 1980s; some Bank staff, for example, deplored the "hasty" GOS decision to shut down ONCAD in 1980. Doubters were reinforced by what was perceived as inadequate private sector response. By the mid-1980s, however, the dominant view was strongly favorable to *désengagement* of the state and liberalization of markets. By the end of the decade, there were many voices within the Bank suggesting that a stronger parastatal presence was essential because the small, poorly developed private sector was incapable of providing the support services needed for rural expansion. This was linked to the rise of "structural" thinking inside and outside the Bank — that price differences and free markets were not enough to bring agricultural growth.

Divergent Views Among Donors

Divergences of view also prevailed among donors. The first was over rice pricing and cereals protection. The Bank, supported by USAID, leaned towards "corrected" border parity pricing and a phasing out of subsidies now paid to rice producers in the Fleuve region. The French, the European Economic Community (EEC), and perhaps other donors, favored higher levels of protection, which translates into a high rice price at retail levels and continued direct subsidization of domestic rice growers and indirect protection for coarse grains. Their argument was that Senegalese food production lags mainly because cheap imports have preempted the domestic market. They also said that without subsidization of domestic rice producers, the investments in the Senegal River dams (Manantali and Diama), which have created vast irrigation potential (250,000 to 300,000 hectares), will be largely wasted, as will ongoing and planned investments in irrigation projects in that part of the country. This difference was muted by Bank staff acceptance of a level of protection (now 45 percent on imported rice) justified by the overvaluation of the CFA franc. In the negotiations over the agricultural SECAL after 1988, donor differences have narrowed; in principle, the only difference is over how much protection is desirable.

Until the late 1980s, donors disagreed about the desirability of phasing out input subsidies in Senegal. USAID was divided on the issue, as was the Bank; the evaluation of the Operations Evaluation Department (OED) of the World Bank came out in favor of fertilizer subsidies and the MADIA study was ambiguous.[5] However, all donors have now adopted a uniform position against reintroduction of subsidies. They are willing to consider fertilizer subsidies aimed at soil regeneration, but only if a well-developed program is put forward.

There is wide divergence over institutional issues — the disengagement of the state, the nature and role of peasant organizations, and the relevance of agricultural extension services and how to make them more effective. Broadly speaking, the Bank and USAID have favored more shrinkage of the state's rural presence, the French and the EEC less. The latter's view is that farmers need rural services that only the parastatals are capable of providing. Many French aid representatives also believe that rapid privatization of rural markets will lead to exploitation of ill-prepared peasants by stronger intermediaries. So they place great emphasis on organizing the peasantry. Whether and how the GOS is divided on these

[5] U. Lele et al., "Fertilizer Policy in Africa: Lessons from Development Programs and Adjustment Lending, 1970-1987," MADIA Discussion Paper #5, World Bank, 1989.

issues is not clear. The conventional wisdom is that the MDR and the ruling political party (UPS) favor the traditional cooperatives, which are largely run by local notables or officials who are well connected politically. How much of a local constituency exists for smaller, more independent organizations is not clear. At present, it is mainly donor support that initiates or sustains them.

The issue of floor pricing for coarse grains has been a source not only of divergent opinion but of confusion as well. All parties until recently favored support pricing of some kind. The Bank, USAID, and the IMF pushed for abandonment of official prices, which was accomplished in 1986. But according to SAL II and USAID policy statements, official prices were to be replaced by floor pricing or "intervention pricing." The GOS position has been that the Food Security Board (CSA) has the mandate to "stabilize" millet/sorghum prices around a floor price. The Bank and A.I.D./Washington's Africa Bureau have, since 1989, taken a position in favor of nonintervention in coarse grain markets. The French, the EEC, and most other donors have long argued that without some floor price mechanism farmers will not have incentive to increase coarse grain production, since given low price elasticity of demand for coarse grains, production and marketing increases will lead to steep price declines. All donors agree, however, that the issue has become moot in recent years because the CSA has had neither budget nor other capacity to intervene much in the face of good harvests.

IV. IMPLEMENTATION

The GOS has implemented many of the policy and institutional changes proposed in SALs I-III and other donor policy loans, and announced in the NAP in 1984.

- The commitment to hold commercial rice imports to the 1984 level (340,000 tons) has been adhered to (at least up to 1989), and between 1980/81 and 1988/89 nominal (official) producer prices were raised by 52 percent for groundnuts, 67 percent for cotton, 83 percent for millet, and by about 100 percent for paddy (see Table 3.3).

- Peasants in the Groundnut Basin have been made responsible for their own seed; at the same time the seed stock kept by SONACOS, the groundnut sector parastatal, has been sharply reduced in size. Local financing for fertilizer subsidies was dropped in 1986.

- Fertilizer subsidies and temporary subsidies financed by donors were phased out between 1986 and 1989. Since December 1985, some liberalization has taken place in groundnut marketing. The oil mills make their own arrangements with farmer groups and private traders. Private traders can now buy groundnuts directly from farmers and sell to the mills at a contracted price.

- Markets for coarse grains have been liberalized more fully. Before October 1985, many regulatory obstacles hobbled efficient functioning of these markets. Entry was restricted. Licenses were needed to do wholesaling, and there were other requirements — storage facilities, for example. Each year decrees established who could buy cereals, when, and at what price. Private traders were frequently not allowed to do primary marketing. Authorizations were required to transport more than 200 kilograms of grain and only

TABLE 3.3

NOMINAL AND REAL PRODUCER PRICES, 1970-1989

	Official Producer Prices CFA/Kg				CPI	Real Producer Price Indices 1980=100			
	Groundnuts	Cotton	Millet	Rice	1980=100	Groundnuts	Cotton	Millet	Rice
1970	18	28	17	21	37	106	138	115	135
1971	21	28	17	21	38	120	134	112	132
1972	23	30	17	21	41	122	133	104	122
1973	23	30	17	21	45	111	121	94	111
1974	30	34	25	27	53	124	117	118	122
1975	41	47	30	42	69	128	123	108	144
1976	41	47	30	42	70	127	122	107	143
1977	36	49	35	42	78	100	114	112	128
1978	40	49	38	42	81	108	110	118	124
1979	42	49	40	42	89	103	100	112	112
1980	46	55	40	42	100	100	100	100	100
1981	46	60	40	42	102	98	107	98	98
1982	60	68	50	52	120	109	103	105	104
1983	60	70	50	52	134	98	95	94	93
1984	50	70	55	60	148	73	86	93	97
1985	60	70	60	66	172	76	74	87	91
1986	90	100	70	85	183	107	99	96	111
1987	90	100	70	85	175	112	104	100	115
1988 /a	70	100	70	85	172	88	106	102	117
1989 /b	70	100	73	85	169	90	107	108	119

Sources: F. Martin, "Senegal Country Study," in Elliot Berg Associates, Cereals Policy Reform in the Sahel, OECD/Club du Sahel, 1986; Direction de la Statistique, Note sur la Consommation à Dakar, various issues; W. Jaeger, "The Impact of Policy on African Agriculture: An Empirical Investigation," Williams College, December 1989, Draft.

/a Official prices no longer apply to millet after 1987. Based on averaged actual prices received from USAID data.

/b 1989 price data is for January only.

licensed wholesalers could buy and sell in such quantities. Since October 1985, open markets for millet, maize, and sorghum have prevailed, in principle. Entry is free. Official producer prices no longer exist for these coarse grains — only "floor" or "intervention" prices exist. The CSA has been limited to maintaining a floor price and managing a security reserve.

Unfortunately, however, there is rather less in this list of implemented reforms than meets the eye. Several of the most important policy changes have not been implemented at all; many have been implemented only partially; some that were implemented ratify previous reality and so represent little real change.

For ease of analysis, it is convenient to group the main components of the agricultural reform program into five categories: price and cereals policies, liberalization of markets, input (mainly fertilizer) subsidy reduction and privatization of distribution, *responsabilisation* of farmers, and reduction of the role of agricultural parastatals. We consider each in turn.

Prices and Cereals Policy

A number of basic objectives of the adjustment program fall into this category: higher ("incentive") prices for producers, improved rural/urban terms of trade, floor pricing for cereals, and higher rice pricing or levels of protection.

Higher Prices for Agricultural Commodities

A central objective in the adjustment program is the improvement of rural incomes by raising prices paid to producers. This is partly an equity matter aimed at redressing past urban bias, and partly a measure to slow the flow of migrants to Dakar and other cities.

This objective of increasing incomes by raising real prices paid to producers was only partially implemented. Table 3.3 shows that the nominal price increases mentioned earlier did not translate systematically into higher real prices — in other words, they were frequently lower than the rate of inflation. The real prices of all crops were lower in the 1980s than in the 1970s. Since average marketed production of most crops probably did not change much on a per capita basis, it seems likely that real farm cash incomes were **lower** in the 1980s than in the 1970s. If we use 1980 as base year for comparison, the picture is somewhat better, but not much. Producers of groundnuts received lower real prices during most years of the ensuing decade; the average real price between 1981 and 1989 was some 5 percent lower than it had been in 1980. Cotton and rice producers did better, but given the key position of groundnuts in rural income earning, the goal of higher rural incomes by higher real prices was not achieved.

The imperfect achievement of sustained real producer price increases does not mean that government policies were intended to be unfavorable to agriculture. On the contrary, Senegalese authorities gave high levels of protection to both export and food crops through much of the 1980s (Table 3.4). The coefficients of protection shown in Table 3.4 are the highest recorded for Africa in recent World Bank analyses. (See citation in the table.)

TABLE 3.4

OTHER INDICATORS OF POLICY TOWARDS AGRICULTURE

	1970-1972	1980-1982	1985-1987 /a
Protection Coefficients: /b			
Food Crops			
nominal	--	--	1.9
Export Crops			
nominal /c	0.76	0.82	2.3
real /d	0.71	0.87	2.2

Ratio of Domestic Millet Prices to International Prices of Rice and Wheat

Rice	
1970 - 72	1.0
1980 - 85	0.7
1985 - 87	1.5
Wheat	
1970 - 72	2.3
1980 - 82	2.0
1985 - 87	2.8

Sources: Jaeger, 1989.

/a 1984 and 1985.

/b Nominal protection coefficients show the ratios of domestic to world prices. prices. A coefficient of less than one indicates taxation; more than one, protection or subsidy.

/c Groundnuts and cotton.

/d Groundnuts only. Real NPCs take exchange rates into account.

Rural/Urban Terms of Trade

The producer price policy of the 1980s (and, for food crops, market forces) — combined with declining real urban wages — did turn the terms of trade in favor of rural areas. The most commonly used shorthand indicator of these intersectoral terms of trade is the ratio of producer prices to urban wages. Comparing the most representative wage rate (the legal urban minimum wage for unskilled labor or SMIG) with the prices of the most important cash crop (groundnuts) indicates that the terms of trade were favorable to groundnut producers through most of the decade, but that the groundnut price reduction in 1988 narrowed the margin. Comparing cotton and millet prices to the SMIG shows a clearer and more sustained improvement relative to the early 1980s (Table 3.5). Moreover, compared to civil servants, farmers were better off throughout most of the 1980s.

Rice Pricing and Cereals Protection

The centerpiece of Senegal's agricultural strategy in the 1980s was cereals import-substitution, local coarse grains replacing imported rice and, to a lesser extent, wheat. The aim was to increase cereals self-sufficiency from about 50 percent in the early 1980s to 80 percent in 2000.

To make this strategy work, millet (or maize) has to become more attractive to consumers than rice (and wheat bread), and millet/maize production has to become more remunerative to producers than groundnuts. This implies that relative prices at the consumer level should favor millet over rice and wheat bread, and that at the producer level they should also favor millet over groundnuts and cotton. It also implies a high level of protection against imported cereals, and that millet (and maize) processing technology should increase the convenience of millet for use by urban households.

These elements of agricultural strategy were not implemented.

- As Table 3.6 shows, millet prices became only slightly more attractive to consumers. The Dakar price ratio of finger millet (*souna*), or unprocessed grain, to rice did move in favor of millet after 1984. But the ratio of millet flour to rice (a more appropriate comparison since it involves similar stages of processing) has not much improved. And, in all cases, relative prices in the 1980s have been less favorable to millet than they were in the 1970s. This analysis, which is based on prices in Dakar, may not hold for rural areas, but there is no indication that it does not.

- Producer incentives were not changed as required, at least not by 1988 (Table 3.7). Price changes in most years were more favorable to groundnuts than to millet. The cotton to millet price ratio did tend to become more favorable to millet, but this is much less significant a relationship than that between groundnuts and millet. No technological changes occurred in this period to raise productivity of millet relative to groundnuts. (Such a change may have occurred in maize cultivation, however.) Relative returns continue to favor groundnut production over the coarse grains.

- The relatively wide differential between processed and unprocessed millet is indicative of the failure to make millet easier to prepare and more convenient to store, despite

TABLE 3.5

INDICATORS OF RURAL/URBAN TERMS OF TRADE

Indices of Nominal Prices and Wages
(1980=100)

	GROUNDNUT	MILLET	COTTON	SMIG	AVERAGE CIVIL SERVICE
1970	39	43	51	38	41
1971	46	43	51	38	42
1972	50	43	55	38	44
1973	50	43	55	38	46
1974	65	63	62	73	56
1975	89	75	85	80	60
1976	89	75	85	80	-
1977	78	88	89	80	59
1978	87	95	89	80	70
1979	91	100	89	80	89
1980	100	100	100	100	100
1981	100	100	109	102	98
1982	130	125	124	109	104
1983	130	125	127	113	111
1984	109	138	127	131	119
1985	130	150	127	137	121
1986	196	175	182	137	131
1987	196	175	182	137	136
1988	152	175	182	137	140
1989	152	183	182	137	-

Ratios of Agricultural Prices to Wage Rates
(Ratios of Indices)
(1980=100)

	Groundnut to SMIG	Millet to SMIG	Cotton to SMIG	Groundnut to Civ Serv	Millet to Civ Serv	Cotton to Civ Serv
1970	103	113	134	95	105	124
1971	121	113	134	110	102	121
1972	132	113	145	114	98	125
1973	132	113	145	109	93	120
1974	89	86	85	116	113	111
1975	111	94	106	148	125	142
1976	111	94	106	NA	NA	NA
1977	98	110	111	132	149	151
1978	109	119	111	124	136	127
1979	114	125	111	102	112	100
1980	100	100	100	100	100	100
1981	98	98	107	102	102	111
1982	119	115	114	125	120	119
1983	115	111	112	117	113	114
1984	83	105	97	92	116	107
1985	95	109	93	107	124	105
1986	143	128	133	150	134	139
1987	143	128	133	144	129	134
1988	111	128	133	109	125	130
1989	111	134	133	NA	NA	NA

Sources: IMF and Ministry of Finance data.

TABLE 3.6

NOMINAL AND REAL CONSUMER PRICES, 1970-1989 (Dakar)

	Nominal Consumer Prices CFA/Kg				Indices of Relative Consumer Prices 1980=100					Indices of Real Consumer Prices			
	Millet (Souna)	Millet (Flour)	Broken Rices	Wheat Bread	Souna: Rice	Souna: Bread	Flour: Rice	Flour: Bread	Rice: Bread	Millet (Souna)	Millet (Flour)	Broken Rices	Wheat Bread
1974	37	60	69	98	68	117	81	138	171	96	114	141	82
1975	45	71	122	132	47	106	54	122	225	89	102	189	84
1976	55	74	86	132	81	129	80	127	158	107	106	132	83
1977	61	79	90	152	86	124	82	117	144	107	101	124	86
1978	64	87	88	152	93	130	92	129	141	108	108	117	83
1979	60	86	90	152	85	122	89	128	144	92	97	109	76
1980	73	100	93	226	100	100	100	100	100	100	100	100	100
1981	68	103	89	205	97	103	108	114	106	91	101	94	89
1982	82	140	114	263	92	97	114	120	105	94	117	103	97
1983	131	187	118	275	141	147	147	154	104	134	140	95	91
1984	147	477	130	275	144	165	341	392	115	136	322	94	82
1985	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1986	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1987	109	483	160	210	87	161	281	520	185	85	276	98	53
1988	94	488	140	192	86	152	324	574	177	75	283	87	49
1989 /a	100	NA	130	192	98	161	NA	NA	165	81	NA	83	50

Sources: To 1984: F. Martin, "Senegal Country Study," in Elliot Berg Associates, Cereals Policy Reform in the Sahel, OECD/Club du Sahel, 1986. From 1985 to 1989: Direction de la Statistique, Note sur la Consommation à Dakar, various issues.

/a 1989 price data is for January only.

Table 3.7

INDICES OF RELATIVE PRODUCER PRICES
(Export Crops relative to Food Crops)
1980=100

	Groundnuts: Millet	Cotton: Millet	Major Export: Major Food Crops /a
1970	92	102	88
1971	107	102	110
1972	118	109	107
1973	118	109	84
1974	104	96	139
1975	119	85	108
1976	119	85	95
1977	89	89	96
1978	92	89	87
1979	91	89	94
1980	100	100	100
1981	100	109	103
1982	104	100	103
1983	104	103	79
1984	79	89	76
1985	87	81	122
1986	112	90	107
1987	112	90	108
1988 /b	87	90	--
1989	83	90	--

Sources: F. Martin, Senegal Country Study, in Elliot Berg Associates, Cereals Policy Reform in the Sahel, OECD/Club du Sahel, 1986; Direction de la Statistique, Note sur la Consommation a Dakar, various issues; W. Jaeger, The Impact of Policy on African Agriculture: An Empirical Investigation, Williams College, December 1989, Draft.

/a From Jaeger, 1989. Weighted by production values. It should be noted that some of Jaeger's figures are inconsistent with the data in the first two columns. The most striking example is 1985.
/b Official prices for millet no longer applied after 1987. Based on actual prices received.

persistent claims that the technology to do so exists.

- The GOS did adjust its trade policy in the direction called for by the Cereals Plan strategy. Between 1970 and 1983, the GOS had subsidized rice imports, when exchange rate overvaluation is taken into account; Delgado's estimates give an average nominal protection coefficient of about 0.88.[6] After 1984, this becomes 1.04 — a small degree of protection. The falling world rice prices of the mid-1980s and the parallel rise in taxes on rice imports meant much higher protection, at least until 1988 when consumer rice prices were cut by about 20 percent. Millet received very high protection throughout: the NPC averages about 2.0 for 1970-1985. The minimum 25 percent protection on local cereals required under SALs II and III was thus exceeded.

Despite appropriate tariff and tax policies, the overall result is one of weak implementation of the price policies required by the Cereals Plan objective of greater food self-sufficiency. Moreover, few of the major food price decisions of the 1980s were taken with food policy objectives in mind. In January 1985, the consumer rice price was raised from 130 to 160 CFAF/kg, in part because of donor pressures and in part because the tax imposed was a fruitful revenue-raising device. The reduction to 130 CFAF/kg in 1988 was in part a response to the political disturbances of February 1988 and in part a response to large increases in smuggling of rice from Gambia. The 1988 cut in producer prices of groundnuts was necessitated by the unsustainability of high levels of subsidy; a secondary factor was the burden of subsidizing smuggled Gambian groundnuts.

Floor Prices for Coarse Grains

The establishment of a floor price for millet and sorghum is part of the NAP, SAL II, and USAID conditionality, and is widely regarded as an essential part of an incentive pricing package. Without it, it is argued, sharp price falls in good crop years will discourage farmer commitment to increasing production.

But the CSA, the agency responsible for grain price regulation, has not been able to execute its mandate, for want of financing, transport, storage, and general administrative capacity. It is entirely dependent on donor support for its operations. The result has been a very modest, even insignificant, presence for CSA in grain markets. In 1984/85, it purchased some 8,000 tons of millet (less than 0.5 percent of estimated production). In 1985/86, it bought 23,000 tons (1.4 percent), but only 3,500 tons in 1986/87.

Moreover, the CSA has been unable to be present in the market when its potential effects could be greatest — at harvest time beginning in September — when distress sales are likely to occur and prices often fall to their annual lows. Like its predecessor marketing boards, it seems unable to mobilize financing early enough; only extrabudgetary financing, as through the Common Fund (consisting of counterpart funds from food aid sales) permits it to do this, and indeed to operate at all. But even with

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[6] C. Delgado, "The Role of Prices in the Shift to Rice and Wheat Consumption in Francophone West Africa," IFPRI, Washington, D.C., 1987.

such support, it has tended to arrive on the market too late.[7] Also its refusal to buy in small quantities (under 30 kilograms) means that it relies largely on traders for primary purchases. This reduces the meaningfulness of its role, since the rationale for a cereals board buying at above market prices at harvest time is that market failures or unequal bargaining power prevail. Purchasing in effect at the wholesale level does little to address that situation. Nor has the CSA been able to stabilize millet prices at the consumer level. Casual observation of the Dakar data does not indicate any reductions in price fluctuation.

Market Liberalization

Implementation of liberalization reforms in agricultural markets has been partial. Coarse grain markets are freer, but many regulations persist in groundnut marketing, paddy remains controlled and the effort to privatize rice imports aborted.

Grain Marketing Liberalization

Government issued a liberalization decree in October 1985. The decree announced the end of movement controls and the principle that anyone could buy and sell cereals. However, the implementing circular (#00009/Min. Commerce/ DCI-P January 6, 1986) contained some ambiguity. It retained the idea of a legal "campaign" date — in other words, it implied that purchase and sale could not be done before a given date (October 21 in this case). It also stipulated who can buy cereals: the CSA, the RDAs, cooperatives and village sections, and "concurrently with these entities, any economic operator who wishes to do so." Why this formulation was used, rather than a simpler statement that anybody could buy and sell, is not clear. The tone is certainly one of grudging liberalization.

More importantly, the circular set out a minimum buying price of 70 CFAF/kg for millet, sorghum, and maize over all the country, and asserted that while buyers could pay more, they could not pay less. This is not quite the arrangement envisaged in dialogue with the Bank and USAID, which would have had floor price supports assured only by CSA purchases.

How much uncertainty this created is not clear, but it was not well designed to remove ambiguities. And it appears that violations of the spirit of the reform were not unusual. World Bank staff, traveling up-country in late 1987, ran across several instances where the officers of *contrôle économique* had acted in violation of the decree — imposing "official" prices for example. And a 1987 study in Southwestern Senegal found that almost three out of four traders questioned did not know that trade in cereals was legally free, that fixed official prices had been replaced by a floor price, or that

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[7] In 1984/85 they started buying in mid-October, and in 1985/86 in December (Commander, Ndoye, and Ouedrago, "Senegal: 1979-89," in S. Commander, ed., *Structural Adjustment in Agriculture in Africa and Latin America*, Overseas Development Institute, London, 1989).

margins were no longer officially determined.[8] At the least this suggests slow and partial implementation. After 1988, however, violations, if there have been any, seem to be unreported.

In addition to these signs of lagging implementation and slow penetration of the liberalizing changes, the meaningfulness of the reforms is diluted by the fact that most trade in coarse grains was in fact privately organized before 1985. The state marketing channel rarely absorbed more than 2-3 percent of production. The vast majority of trading took place in the parallel or traditional market. Still, the 1985 reforms, at the least, removed nuisance regulations and reduced uncertainty; to the extent that they have been implemented, they have had cost-reducing effects on cereals markets. It appears also that they have stimulated new entry into commerce, as would be anticipated.[9]

Rice Market Liberalization

A potentially more significant market liberalization effort failed altogether. This was the program, begun in 1985, to privatize rice imports. Before 1985, the market for imported rice was highly organized. The CPSP had sole rights to import. It sold to a number of licensed wholesalers (*quotataires*) who in turn sold to traders or cooperatives, or to the state retail chain, SONADIS. This system was regarded as inefficient and the licensing arrangements as politicized and prone to rent-generation; stories of corrupt practices were common.

In its Letter of Development Policy of December 1985, the GOS announced a new import system: 80,000 tons would be imported by SONADIS; a security stock of 60,000 tons would be managed by SONADIS to protect against private sector failure; and 200,000 tons would be imported by private firms under competitive bidding. The system was to begin in May 1986.

Implementation efforts revealed numerous difficulties: the uncertain competence of the substitute actors, notably private importers; the need to levy a high tax on rice — in other words, to replace the opaque CPSP *perequation* system with a more transparent fiscal arrangement; hesitation from the banks to finance new importers; inadequacies at the port of Dakar because of the increased number of importers; and weakness in internal distribution arrangements, with few outlets other than SONADIS, which handled about one third of all sales.

The Senegalese were never enthusiastic about this change. However, it was a central part of SAL II conditionality and of USAID's policy grants. Problems quickly arose, causing delays and adaptations. No donors were ready to finance the 60,000-ton security stock. SONADIS was near bankruptcy, poorly

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[8] A.B. Fall, "Etude descriptive des marchés céréalières au sud-est du Sénégal," ISRA, Note d'Information 87, p. 5.

[9] B. Diagana, A. Fall, and Stephen Goetz, "Observations préliminaires sur le systeme agro-alimentaire dans les régions orientales du Sénégal," p. 15; and M. McLindon, "Privatization and the Development of the Private Sector in the Senegal River Valley," USAID, June 1989, pp. 14-15. However, even in the absence of deregulation, new entrants will come when profitable opportunities exist. In the Senegal River Valley, for example, many private rice mills were started after 1982 in response to market opportunities, even though it was illegal to process rice for the private market.

run, and hardly an instrument of choice for implementing the new rice policy. Some politically acceptable way had to be found to substitute a tax for the *perequation* arrangement. In the end the GOS introduced, on a trial basis, a three-month experiment in 1987, allowing private import of 85,000 tons, 25 percent of total imports. A complex arrangement was worked out to allow CPSP to collect its *perequation*. The GOS was ready to extend the private share to 50 percent of total rice imports in 1988, and perhaps more, if a required evaluation suggested it was working satisfactorily. The evaluators were to look at three specific criteria in judging the success of the privatization experiment: timeliness of delivery, geographic coverage of distribution, and timeliness of payment of the *perequation*.

In November 1987, representatives of major donors and the GOS considered the evaluation report. The four new importers had clearly run into many problems. They experienced delivery delays (about one to three weeks), and only one was willing to sell rice up-country. Delays marked *perequation* payments also. The banking arrangements were unsatisfactory, there were some quality problems, and apparently some fraud.

The generally negative tone of the evaluation, combined with lack of enthusiasm for the experiment, led to its abandonment. None of the players saw it as bringing many benefits, while implementation headaches persisted. The pre-1985 arrangements were reinstituted, and remain in force today.

Fertilizer Subsidy Reduction and Privatization of Distribution

Fertilizer subsidies have been a troublesome issue for almost 20 years. They were paid for until 1973 by the European Development Fund (FED) of the EEC, which originally introduced them in the 1960s. A fertilizer plant was built in 1966, but the GOS had to pay penalties because of shortfalls from promised purchases of 60,000 tons annually. Subsidy levels were high — near 50 percent of ex-factory costs in many years. Consumption nonetheless remained low; it never exceeded 120,000 tons a year, and was much below that in most years.

These arrangements were deficient in important respects. Only the state agency (ONCAD until 1980) received the subsidy, which made private competition impossible; private sales disappeared. ONCAD had high operating costs, often supplied wrong types and quantities, and delivery was frequently late. The high subsidy encouraged uneconomic use of fertilizer, particularly in the dryer zones where risks of failure are high and yield responses often low. Corruption and political allocations flourished.

To simplify controls and avoid parallel trade, fertilizer was sold at a single price per bag regardless of the content or place of delivery. This pricing policy led to a de facto cross-subsidization; farmers in the driest areas of the country, where the cheapest formulas were used, subsidized farmers in the wetter areas in the south of the country who used more complex mixes. Moreover, prices in the border regions were even more highly subsidized because of subsidized transport costs. This also increased risks of smuggling and created a necessity or at least a rationale for tight marketing controls.

The fertilizer supply system came under particular stress in 1980. Partly because of discontent with the input supply organization (ONCAD), and partly because of falling revenues due to droughts, farmers refused to repay their debts for seeds, tools, and fertilizer, leading to the liquidation of ONCAD and a legacy of US$ 300 million of unpaid debt. The central credit system was shattered when, following the 1979 oil shock, fertilizer prices skyrocketed worldwide, and the subsidy rate rose in 1982 to 80 percent of ex-factory cost. Political considerations led the GOS to maintain heavy subsidization, but it reduced the quantity of fertilizer supply to an estimated 20,000 tons in 1982, to diminish the burden of the subsidies on the state treasury. Subsidy reduction became grist for the evolving reform program under SAL I.

The SAL I Story — A Case Study in Reform

The SAL I episode is worth telling in detail since it is a classic example of difficulties in reform implementation. Much of the Bank's early dialogue on fertilizers was based on a study done by the International Fertilizer Development Corporation. On the basis mainly of that study, and driven by the high cost and poor performance of existing arrangements, the Bank staff recommended that the average nutrient content of existing grades of fertilizer be raised and that this hike be complemented by a higher unit price per kilogram of fertilizer (from 25 CFAF/kg to 34 CFAF/kg) so that the price per kilogram of nutrient would remain the same. This was to have the advantage of reducing transportation, storage, and bagging costs since only 50,000 tons of fertilizer would be needed to fertilize (with no reduction in output) the same area that required 80,000 tons in the mid-1970s.

The Bank also came out in favor of introducing differentiated prices for different grades of fertilizer, to eliminate the inefficient and inequitable "average price" method of distribution by which different grades of fertilizer were sold throughout the country at the same average price, irrespective of their true costs.

The Bank also recommended a differentiated price structure based on method of payment. Under this plan, fertilizer bought with cash would cost 20 percent less than fertilizer bought on credit, thus giving an incentive for farmers to purchase with cash, and thereby lower delivery costs.

In addition to these short-term recommendations, the Bank advocated the longer-term goal of reducing fertilizer subsidies, with their total elimination to take place by 1985. The introduction of differentiated prices was to be a big step in this direction, as it would more equitably distribute the burden of the lessened overall subsidy between farmers in the north and south.

The GOS's initial reaction to these recommendations was not encouraging. First of all, for 1980-1981, a number of conflicting objectives were advanced by different Senegalese actors, and these together frustrated the Bank's plan. The Minister of Rural Development had a quantity target: he wanted 100,000 tons of fertilizer to be delivered. The Prime Minister had a price objective: no hike in the CFAF 25/kg price payable by farmers. The Minister of Finance had an aggregate spending ceiling in mind: he set a limit of CFAF 2 billion for the total subsidy appropriation. These inconsistent objectives were reconciled by a classic political ploy. Instead of increasing nutrient content and price, as the Bank had wished, nutrient content was cut and the price (per kilogram of fertilizer) remained the same.

The notion of different prices for different grades was also rejected, on the grounds that farmers were unacquainted with the potential benefits of the various grades, so that a price increase in the complex grades would merely shift demand to the less expensive grades. The only part of the Bank's recommended program that received any favorable response was the notion of a differentiated price for cash as opposed to credit sales. SODEVA staff apparently felt that this measure would help reduce nonrepayment rates.

In 1981, after much urging by Bank staff, the GOS decided to double (to 50 CFAF/kg) the price of fertilizer supplied to producers for 1982-1983 and to initiate sales on a cash only basis. These steps were aimed at reducing the drain on the s ·'s budget by lowering the subsidy rate and avoiding the credit default problem which had become insoluble. Also, the GOS agreed that for the first time, in 1982-1983, the fertilizer price to farmers would be differentiated on the basis of composition, with the average price to be set at the new 50 CFAF/kg level. (The GOS insisted, however, on retaining panterritorial pricing.)

These measures were to have been put into effect for the 1982-1983 marketing season. But a number of events came together to change the situation. First, President Diouf decided after a tour of the country in April 1982 that the fertilizer price rise was too great a liability in an election year and it was subsequently canceled. The principle of cash payment was accepted, but the repeal of the price hike left a subsidy level of 50 percent of cost. At the same time, the Senegalese monetary authorities and the Ministry of Finance limited the aggregate subsidy to approximately the same amount as in the previous year, despite a 20 percent rise in the ex-factory cost of fertilizer. The total availability of fertilizer was seriously curtailed. About the only plank in the Bank's plan that proceeded as scheduled was the introduction of the practice of varying price by grades (but not by location).

The end result of all this confusion was that fertilizer distribution in 1982-1983 was a universally recognized disaster. All parties were dissatisfied: the Bank because the promised subsidy rate reduction had not been carried out· the GOS because no workable solution had presented itself; and the farmers because they were now ıg required to pay cash for fertilizer that they had received before on credit, which many knew they would not have to repay. In 1982-1983, the volume of fertilizer distributed dropped to 38,700 tons. In the crucial groundnut basin, farmers were reluctant to purchase what little fertilizer was available even at the highly subsidized price. Bank staff blamed this failure on the GOS's late announcement of the cash sales program; it came too late to have an impact on farmers' budgeting decisions for the year. Most farmers had used up all their cash by the time the fertilizer was put on the market.

In 1983-1984, fertilizer sales were again conducted on a cash only basis and this time the subsidy level was reduced (as had been promised for 1982-1983) thus raising the price to an average of 50 CFAF/kg. Fertilizer consumption fell below the 1982-1983 level; in the groundnut basin only 3,000 tons were used.

Bank staff and other observers explained the persistence of these low levels of consumption on farmer expectations that the price would be lowered (as it had been in the previous year); so they held off from buying until it was too late. While this is no doubt part of the explanation, at least two more basic reasons for the drop in fertilizer consumption are readily apparent:

- Under the old credit arrangement the GOS assumed the risk of unproductive fertilizer use. Farmers knew that if rains were bad, there was a good chance that the GOS would forgive producer debts. Under the cash sales program, the farmer had to assume all the risk; and

- Producers were being called upon in 1983-1984 to pay twice as much as before for fertilizer, without any upward adjustment in product prices. It is generally argued that fertilizers are only profitable at a ratio of producer price per kilogram of crop to the cost per kilogram of fertilizer of 2:1 or even 3:1. By 1983 this ratio had fallen to almost 1:1.

In the wake of the unfavorable experience with the subsidy rate reduction and cash sales experiment, the tune of the GOS changed substantially. Talk of subsidy removal became rare. Thus the NAP called for building up a yearly demand for fertilizers of 120,000 tons by 1987-1988, through "appropriate financing" as well as by reduction of fertilizer prices via tax cuts and improved efficiency in production and marketing. The meaning was clear: continued subsidization. The donors later acceded to this position, although the episode left a strong residue of resentment among Bank staff. In October 1981, a high-level team had come from Washington to work out problems in implementing SAL I's agricultural reform. Among other things, they agreed with the GOS that fertilizer sales should be for cash and the subsidy should be limited to 50 percent of the cost price. This plus some conditions on groundnut seeds were added to the single original condition for second tranche release in SAL I (an increase in consumer rice prices). The retraction by President Diouf four months later did not go down well. The gossip in Dakar at the time was that the president had dug in his heels in a meeting with Bank representatives, saying that he was "forced to choose between the Senegalese people and the Washington institutions and he chose the people."

Fertilizer policy backsliding was one of the four reasons for SAL I cancellation. (The others were seed policy, refusal to transform the cooperatives into truly autonomous and smaller sections, and poor macroeconomic performance.) But a few months after cancellation, donor consultation and then dialogue between the GOS and the main donors led to a more gradualist position on fertilizers. Subsidies could be provided, but not by locally raised budget resources. USAID and the CCCE agreed to provide declining subsidies for five years, from 1985/86 to 1989/90.

In 1990, subsidies for fertilizers are supposed to end. However, numerous GOS spokesmen have let it be known for some years that they believed subsidy removal to be a bad idea. In 1989 the GOS contracted with SENAGROSOL, a local consulting firm, for a study of the fertilizer issue. The resulting report, "Etude de la filière engrais au Sénégal," was completed in the spring of that year. It concluded that farmers feel fertilizer prices are too high; that farm level credit is scarce; that fertilizers rank low in farmers' priorities — after better seed, for example; and that the private sector has not done well in fertilizer distribution. The recommendations are that prices be reduced by cutting costs of production and marketing and **by continuing the fertilizer subsidy for three more years**. These are the same recommendations, it should be noted, that the MDR made some seven years earlier.

The subsidy recommendation was not based on analysis given in the report. But in any case, the issue was once more joined. It has been argued in the negotiations between the World Bank, the CCCE, and the FED and the GOS over the draft agricultural SECAL. Thus far, donors have not accepted reintroduction of subsidies, except for soil regeneration, on presentation of an "acceptable" program.

The conclusion on implementation of fertilizer subsidy reduction, therefore, has to be mixed. In the early 1980s (SAL I), the policy of reducing fertilizer subsidies was rejected by the GOS. Between 1985 and 1990, there was a gradual phase-out, except for fertilizers distributed by the RDAs. Now, there is general donor resistance to their renewal, but most Senegalese authorities responsible for agriculture continue to favor reintroduction.

Privatization of Fertilizer Distribution

The privatization of distribution was the second objective in the fertilizer subsector. Here USAID played a major role. Its ESF grants and its Agricultural Development Support Project had privatization as a major objective.

Most observers were skeptical about the likelihood of a private sector response. According to a close student of fertilizer policy:

> USAID offered to finance a subsidy on all cash sales made by the private sector (SONACOS, Cooperatives, and commercial outlets). The private sector, however, was generally unwilling to assume the risks of costly storage, transportation, and distribution given the uncertainty about future fertilizer price and credit policies. Furthermore, the absence of a farmer credit program made it virtually impossible to accurately estimate effective demand; and the few independent traders who expressed interest claimed a major constraint was lack of commercial credit.[10]

The MADIA study on fertilizer cites a World Bank memo summarizing participant views during a 1986 seminar on privatization:

> (a) private traders are hesitant to participate in the distribution of fertilizer because the business is considered financially risky; (b) the lack of a credit system for both farmers and private traders keeps the private market of fertilizer very limited; (c) farmers are still skeptical about the profitability of fertilizer use.

The skepticism seems to have been warranted, at least up to 1989, and with the possible exception of the Fleuve region where private traders are said to be dealing in significant quantities.[11] Table 3.8 gives a summary of the USAID fertilizer program. According to the table, more than a third of total fertilizer sales were privately traded between 1986 and 1988. However some evidence suggests that it is less. According to a 1989 audit of the USAID program done by a local consulting firm (Cabinet AZIZ DIEYE), in 1986 4,155 tons were listed as sold by private dealers. But this included 1,947 tons by SONAGRAINE, the marketing wing of SONACOS, hardly a private dealer. SONAGRAINE also took 4,072 tons of the 7,400 tons in the USAID program in 1987. In 1988, 2,039 tons went to the cooperative UNCA, which is arguably private; only 1,300 tons were indisputably private. So the USAID effort to stimulate private fertilizer sales had little success.

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[10] V.A. Kelly, "Farmers' Demand for Fertilizer in the Context of Senegal's New Agricultural Policy: A Study of Factors Influencing Farmers' Fertilizer Purchasing Decisions," International Development Working Paper #19, East Lansing, Michigan, Michigan State University, 1988, p. 70.

[11] McLindon, ibid.

TABLE 3.8

FERTILIZER PROGRAM

	12/31/86	12/31/87	12/31/88	6/13/89
Total wholesale (1000 MT)	-	21.4	29.1	13.3
Tonnages subsidized (1000 MT)	6.7	5.5	6.7	0
Subsidy as % of total sales	-	25.6	22.9	-
Amount of subsidy paid				
CFAF millions	16.9	186.1	64.5	-
US$ thousands (US$ 1 = CFAF 300)	539.6	620.4	215.0	-
Number of private dealers	-	57	33	26
Private dealers sales (1000 MT)	-	7.2	11.6	6.6
As % of total sales	-	33.5	39.8	50.0
UNCA sales (1000 MT)	0.6	0.6	2.0	0
Range of price (CFAF/kg)	60-75	60-98	58-95	74-104

Source: USAID/Dakar.

Notes: The private sales did not include SONACOS and CSS, which are not public either. In 1985 there was no private sale at all except for CSS.

A similar indication of questionable privatization progress is the shrinking number of private dealers shown in Table 3.8 — from 57 at the end of 1986 to 24 in mid-1989. Privatization of fertilizer distribution clearly has made little headway. This was probably to be expected, because of the narrow market for unsubsidized fertilizers and chemicals, which are profitable only on certain crops in certain regions.

The experience with channeling credit to private traders has not been good. In 1988, the fertilizer company (SENCHIM) advanced credit to licensed private wholesalers (Organismes Privés Stockeurs) for financing fertilizer sales. None of these advances were repaid, and all OPSs or licensed private wholesalers were therefore out of fertilizer marketing in 1989. The cooperatives have taken a bigger role, but they are a mixed bag, some being authentic, and others merely administrative creations of the GOS. In general, they are not very "private."

Responsabilisation of the Peasantry

Various objectives come under this heading: transfer of seed storage to farmers, more emphasis on cash payments for inputs, and formation of more autonomous and representative farmer organizations. We focus primarily on the groundnut seed issue which has been a subject of dialogue and conditionality since SAL I.[12]

The issue was and is of special importance for two reasons. First, more seed is required per unit of output for groundnuts than for other crops; the ratio of output to seed is about 10, while it is 45-50 for maize and millet. So storage is a bigger concern. Secondly, based on the view that groundnut farmers would not or could not save or buy and store their own seed, the state had long been responsible for seed storage; but this institutional arrangement, like most others in rural Senegal, was no longer operational by 1980.

Before 1980 the GOS seed program was ambitious. It called for renewal of the entire stock of producers' groundnut seeds every year. Over 100,000 tons of improved seed were produced and delivered annually between 1972 and 1981. Breeder seeds (N1) were developed by the national research organization (ISRA), which contracted out for multiplication to farmers under the supervision of SODEVA, the Groundnut Basin parastatal development agency. Contracting farmers produced improved seeds (N2) for general distribution. Under this plan, seeds were provided to farmers before sowing time (April-May). The farmers were then supposed to repay ONCAD in kind during the marketing season (October-November) at a rate of 125 kilograms of groundnuts per 100 kilograms received.

Two main problems plagued this system: poor seed quality and a bad repayment rate. ONCAD was unable to provide farmers with timely delivery of good quality improved seeds. In fact, because of the difficulty involved in handling, storing, and distributing over 100,000 tons of seeds each year, farmers were habitually supplied with very poor quality seeds. According to World Bank analysis, by 1980 the

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[12] This section benefitted from the background paper by Bruno Stockli, "Production et gestion semencières au Sénégal," October 1989

seed quality problem had become critical. SODEVA conducted tests in that year that revealed a germination rate of only 50 percent. The Bank attributed a large part of the blame for the disastrous groundnut crop in 1980-1981 to poor seed quality.

The method chosen by the GOS in the spring of 1981 to fill the credit vacuum was to introduce a deduction or *retenue* system: farmers paid in advance for next year's seed. Also the GOS abandoned its objective of having every farmer renew his entire seed stock every year, and began to distribute ordinary seeds drawn from the previous year's general harvest. By 1983, according to the New Agricultural Policy document, 58 percent of the national seed stock consisted of ordinary seeds.

This new system had the obvious advantage of eliminating the need for extensive credit to cover the cost of seeds. But it also had some serious faults. Linking one year's seed supply to the previous year's production raised the problem of how to finance adequate seed supply after an unusually bad year. Also, there was no direct link between how much seed an individual farmer received and how much he paid, so productivity was penalized and inefficiency encouraged. Finally, the *retenue* system locked farmers into the central distribution scheme and contradicted the GOS's stated goal of transferring responsibility for seed storage (at least for ordinary seeds) to farmers and local groups. As long as the *retenue* was automatically applied to all marketings of groundnuts, there was little reason for anyone to constitute his own seed stocks since, in effect, he already would have paid for the right to draw upon SONAR's stock. Under these conditions, it made little sense for farmers to hold back seeds from their annual harvests.[13]

It was to combat these serious problems that World Bank staff proposed a scheme for reorganization of the seed sector in the fall of 1982. This plan would have allowed producers to opt out of the central distribution scheme and would have given them some incentive to begin keeping their own ordinary seeds. The plan called for producers to be issued a voucher during the 1982-1982-1983 marketing campaign on which they could indicate their preference for keeping their own seeds. Then, in May, instead of receiving seeds, they were to be paid an 80 CFAF/kg *incitation* payment to cover the amount of seed that they would have been entitled to receive (and for which they had already paid in the form of the 10 CFA/kg *retenue* on their marketed crop). Such farmers would henceforth not be subject to the *retenue*, or entitled to receive centrally distributed ordinary seeds.

The Senegalese Government, represented by the head of SODEVA, agreed to the Bank's scheme in October 1982. Vouchers were distributed during the groundnut campaign. But then things went awry. In November, President Diouf changed the agreed scheme by preventing farmers who had opted out of the central distribution from storing their own seeds. These farmers were now required to hand their seeds over to SONAR, which would return them before the planting season. It is not clear why this was done, although presumably it had something to do with protection against pests and insects.

Secondly, SONAR's resistance grew. Its managers did not like the scheme to begin with, and liked the presidential revision even less. They complained that the manpower restraints placed on them would prevent them from effectively administering the complicated task of keeping track of seed not strictly their own.

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[13] Unless, of course, farmers behaved as though the *retenue* were a tax.

Subsequently, the GOS liquidated SONAR, whose input supply functions were taken over by the groundnut oil refineries, beginning in 1985. The *retenue* system was dropped and, in the 1985-1986 season, the central groundnut seed stock was cut from 120,000 to 100,000 tons.

The specific objectives from 1985-1986 onward, under SALs II and III were continued reduction of the centrally held seed stock to 50,000 tons in 1986-1987, ending free distribution of seed, and complete liberalization of seed distribution after 1986 The overall objective was a system change whereby farmers would either store their own seed or buy it at cost from SONACOS. SAL III makes no mention of seeds policy.

Presently, groundnut seed is provided in three ways: cash purchases at SONACOS points of sale; credit purchases, through the newly formed (1984) Caisse Nationale de Crédit Agricole (CNCAS), which involves the cooperative structure (UNCA); and self-supply by farmers themselves. The total national seed stock is now estimated to be 100,000 tons, of which SONACOS keeps a security stock of 25,000 tons.

Thus a more decentralized seed supply system has emerged, which is also more economic; the size of the overall stock is down, and the security stock is much smaller than previously wanted by the GOS.

Problems persist. Credit arrangements continue to be weak. SONACOS has provided seed credits (in kind) to the cooperative organization UNCA, but has had mixed success in obtaining reimbursement. Dual marketing channels lead to low repayment rates in some areas (Kaolack, for example). Farmers can get seed credits through the cooperative channel but sell output on the private (OPS) circuit.

Moreover, SONACOS has not always acted to support the institutional strengthening of the seed system. In 1986-1987, it contracted with farmers for production of 60,000 tons of N2 seed at the official N2 price of 110 CFAF/kg. But SONACOS reneged shortly after the season began, agreeing to buy only 35,000 tons at the agreed official price, and paying the farmers only 90 CFAF/kg (the price for ordinary grains) for the remaining 25,000 tons.

Despite such problems, and others such as lack of credit facilities, inadequate supplies of pesticides, and poor practices of seed protection, the *responsabilisation* objective seems to have been met. In 1985-1986, the GOS provided three quarters of all groundnut seed to farmers. Four years later that proportion was nearly reversed. A sample survey in March 1989 found that farmer seed stocks were 74,000 tons, or 69 percent of requirements. Some regions were much less well stocked, and overall only 40 percent of the stock was treated with insecticides.[14] But peasants have become largely responsible for their own seeds.

Earlier studies (1986-1987) cited in Commander, Ndoye, and Ouedrago, confirm that farmers quickly began to store their own seed after 1985 (p. 162). These studies also suggest that informal

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[14] Ministère du Développement Rurale, Direction de l'Agriculture, "Evaluation des reserves personnelles de semences d'arachide," Dakar, April 1989.

markets and family sources were able to provide needed credit. The program aimed at shifting responsibility to farmers has thus been successful.

Désengagement de l'Etat

Disengagement has many dimensions — reduction of regulatory intervention in the sector, demonopolization, shrinkage of parastatal activities — all aimed at encouraging a larger private sector role. We have already considered the most important regulatory reforms: liberalization of cereals marketing and privatization of rice imports. We concentrate here on that important objective of the New Agricultural Policy and of World Bank and USAID conditionality: the reduction of parastatal activities in rural markets.

The implementation record is mixed.

- The attempt to privatize rice importing failed, as noted above. The CPSP remains the monopoly importer. The rice subsector is still highly controlled. Domestic distribution is theoretically liberalized, but panterritorial and panseasonal pricing with absorption of transport costs up-country sharply reduces profitability for private sellers, which explains why few are engaged in rice trading, except perhaps in the Fleuve region.

- SONACOS remains a dominant presence in the refining, marketing, and trade of groundnut products. Liberalization has entailed a shift in marketing responsibility to farmer organizations. As noted above, a major effort in 1986-1987 to provide crop credits to licensed private wholesalers failed when the merchants did not repay the loans.

- Since the announcement of the NAP in 1985, the RDAs as a group (SAED, SODEVA, SOMIVAC, SODAGRI, and SODEFITEX) neither wasted away very fast nor improved their efficiency much. A December 1987 evaluation of SOMIVAC, SODAGRI, and SODEFITEX drew the following conclusions:[15]

    - The three RDAs did not achieve their targeted production, in part because of bad rains, shortages of equipment, and high cost inputs.

    - Farmers were not adopting the extension messages on planting dates, fertilizer application, and pesticide use.

    - The RDAs (except SODEFITEX) were not seriously looking for independent means of financing themselves.

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[15] Délégation à la Réforme du Secteur Parapublic, "Etude d'évaluation des lettres de mission des sociétés régionales de développement rural," Rapport Intermédiaire #IV (by A. Cissé and M. Gaye), Dakar, December 1987.

- The drafting of *lettres de mission* does not adequately reflect the principles of the NAP, nor do they take account of NAP modalities.

- Farmers and, to a lesser degree, RDA staff are not informed about most of the principles of the NAP.

• Three RDAs (SODAGRI, SODEFITEX, and SOMIVAC) have not done much real "disengaging" since 1987.

  - SODAGRI does integrated rural development. It is building irrigation infrastructure in the Anambé River Valley. Because of poor results and high costs, it was slated for termination. But its February 1989 report on the status of its *Lettre de Mission* 1985/86 to 1989/90 is hardly the report of a dying institution; SODAGRI seems unaware of its decreed disappearance. It has been raising the pace of its activity, and has firm plans to spend CFAF 12 billion in new irrigation works and machinery acquisition between 1989 and 1992. Moreover, by early 1989, it had succeeded in finding foreign aid financing to the tune of CFAF 7.7 billion (US$ 28 million), or enough to fund 64 percent of its planned program.[16]

  - The SOMIVAC story is similar. This RDA, which is responsible for rural development in the Casamance, was officially slated for liquidation in 1989. The December 1987 evaluation paints a grim picture of SOMIVAC's operations: break-up of its small anti-salinity dams, increasing salinity of irrigated perimeters, farmer abandonment of prepared fields, poor land preparation, limited adoption of annual traction, and reduced use of off-farm inputs. Visitors saw poorly maintained or abandoned equipment everywhere. But phoenixes are rising from the ashes. Staff and activities of SOMIVAC are being supported by new donor-financed projects. As failed projects disappear, new ones, under new donors, take their place. Thus, as the SOMIVAC *Bilan* for 1986-1988 rather poetically puts it: "le PIDAC [a departing rural development project in the Casamance] dissout, verra le DERBAC partir de ses acquis. . . . Le personnel du PIDAC est en position de stand-by pour le nouveau projet DERBAC. . . . Le projet Rural de Sédliou . . . également dissout verra l'intervention dans la zone de PRIMOCA dont le programme d'urgence à déjà démarré depuis Octobre 1987."[17] As a result of strong continuing donor interest in the region, most of the 40 percent of its staff dropped in 1986 have probably found jobs with projects in the region. And despite SOMIVAC's many difficulties, it is not likely to disappear. So the state presence in this region does not shrink, but rather changes names.

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[16] MDR, Sociétés de Développement Agricole et Industriel du Sénégal, "Lettre de Mission 1985/86 - 1989/90, Bilan des Campagnes Agricoles 1986/87 et 1987/88," February 1989.

[17] MDR, *Bilan des Activites de SOMIVAC, 1986-1988*, p. 36.

- SODEFITEX has cut its activities least of all the RDAs. It continues to expand its extension and input supply work, and has taken on the task of encouraging the formation of village level organizations (Associations des Producteurs de Base), by literacy and other training and support. Its third *Lettre de Mission* for the period October 1988 to September 1992 gives no hint of intent to wither away. SODEFITEX continues to accept in this LM obligations that run counter to the NAP and to general liberalization policies. It commits itself, for example, to buy the market surplus of rice and maize in its zone of operations at a price fixed by the GOS.[18] This is not consistent with the abandonment of fixed official prices for coarse grains. Nor is the monopoly buying situation in line with the liberalization decree of January 1986. Indeed, SODEFITEX in mid-1988 informed the GOS of problems with financing its loss-making maize operations. In 1987-1988 SODEFITEX paid 70 CFAF/kg for groundnuts, which it had to sell to CSA for 73 CFAF/kg.[19]

- SODEVA has decidedly disengaged. It suffered an early blow in 1983, when the World Bank and the CCCE decided to terminate their unsuccessful Sine-Saloum project, which had financed much of the SODEVA payroll. USAID picked up the burden with its integrated rural development project thereby allowing SODEVA to continue operations and maintain its staff of about 1,300. When that project ended, SODEVA staff was cut in half (Table 3.9). Since 1985, SODEVA has not cut back further, apparently because of lack of financing for severance pay. A CCCE loan in 1989 financed such payments to 220 discharged staff. In addition to staff losses, SODEVA has been crippled by financial problems, unpaid debt from the state, and nonrepayment of its own subsidies to farmers in the Groundnut Basin. Its present scope of activities is limited and its future is uncertain.

- SAED has also disengaged to a significant degree. Its land preparation activities have been largely privatized; a small "brigade" serves hard-to-reach perimeters that would be unprofitable for private operators. SAED in 1987-1988 did 18 percent of the land preparation work on its perimeters and in 1988-1989, 16 percent.[20] In early 1989, management was contemplating sale of SODEVA's remaining equipment and motor pool to staff. The Central Maintenance Workshop is also up for sale. There is talk of privatizing its two rice mills. *Responsabilisation* is manifested by new roles for farmer organizations, which now handle paddy purchases, selection and wages of weighers, transport of paddy, and debt repayment. SAED in 1987 contracted out for some milling to a private mill (Delta 2000). Fertilizer provision has been left to the private sector, and pesticide provision has stopped.

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[18] MDR, "Troisième Lettre de Mission entre le Gouvernement du Sénégal et la Société de Développement des Fibres Textiles," 1988, p. 4.

[19] MDR, SODEFITEX, "Note sur la SODEFITEX (Janvier 1986 - Mars 1988)," p. 11.

[20] McLindon, Ibid, p. 7.

TABLE 3.9

PERSONNEL IN MAJOR RDAS

RDA	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
SODEVA	1,882	-	1,500/a	1,405	1,362	1,261/b	634	634	634	634	413/c
SAED (perm. only)	-	-	971	951	1,008	-	981	981	711	944/d	724/e
SOMIVAC	465	510	548	560	559	-	636	366	366	352	- /f
SODEFITEX (perm. only)	-	739	740	680	680/g	680/g	680/g	680/g	680/g	680/g	680/g
SODAGRI	-	-	-	-	-	-	125	97	80	-	-

Sources: DRSP, June 1989; World Bank, "The World Bank and Senegal, 1960-87," August 31, 1989; Ministère du Développement Rural, "Propositions du Ministère du Développement Rural sur le Désengagement des Sociétés Régionales de Développement Rural," July 1987; and World Bank, "Country Economic Memorandum," 1984.

/a Estimated in World Bank 1984 "Country Economic Memorandum."
/b As of December 1984, according to MDR, SODEVA, "Bilan, January 1986 - March, 1988."
/c Estimate, reduction of 221 due before end of 1989, subject to resolution of severance pay issues.
/d As of December 1988, according to MDR, SAED, "Rapport Semestriel de Suivi de la 3eme Lettre de Mission," July 1987 - July 1990.
/e Estimate, 220 laid off on June 1989. Note, 50 more to be laid off before June 1990.
/f Scheduled to be liquidated at the end of 1989.
/g Estimate, based on statement that global employment has not been reduced.

Table 3.9 gives a synoptic view of the extent of reduced parastatal activity in agriculture. It shows that staff reductions have been substantial in SODEVA, and significant in SAED and SOMIVAC. The absolute numbers of employees let go is small, and many probably found employment on similar public sector projects in the same area.

A useful parallel measure of parastatal agricultural activity would be budget subsidy data. The numbers at hand are shown in Table 3.10. The fact that most of the data stop at 1985 reduces their usefulness. Until 1985, in any case, subsidization of the agricultural parastatals continued, suggesting that there was little shrinkage of state spending on public sector rural development agencies during the first half of the decade.

It should be emphasized, in considering reductions in the role of the state, that liberalization of groundnut marketing has advanced relatively little. SONACOS retains its official monopoly of purchase, and almost all groundnuts are bought at official buying stations (*seccos*). The main change is that frequently these stations are now managed by cooperatives or private operators. SONACOS still determines allocation of purchasing rights, and prices remain fixed and uniform seasonally and geographically. Shrinkage of SONACOS staff remains an elusive objective of donor dialogue.

V. ASSESSMENT

We have up to now addressed only the question "what happened?" — what were the prescribed reforms and were they implemented? We have not tried to judge either their appropriateness or their impact. We now turn to evaluation, from several perspectives. Were the sectoral adjustment measures well designed? This involves several side questions: Were (are) its analytic foundations sound? Was the choice of priorities right? Did the specific reform measures adequately consider the administrative/political environment? Was the process, collaborative and otherwise, designed to increase Senegalese "ownership"?

As noted in the discussion of public enterprise reform, it is a lot easier to see flaws in the inventions of others than to devise one's own. The benefits of hindsight and distance (historical and physical) make this doubly so. And finally, subjective judgment is much involved in these kinds of evaluations, as can be seen by the large number of **different** horses that critics of Senegalese adjustment policies have chosen to beat — of which more later.

Weak Analytic Foundations

Three key elements of the sectoral adjustment program that had weak analytic justification are considered below: the emphasis on rice pricing, cereals protection, and import substitution as the linchpin of agricultural strategy; floor pricing of coarse grains; and the rice import privatization proposal. We will also comment on several common criticisms with which we do **not** agree: that the general emphasis on price policy was misguided, that many components in the program have been based too much on fiscal considerations, or that the program rests too much on a "vacuum theory of privatization"

TABLE 3.10

FINANCIAL POSITION OF MAJOR RDAs, 1981-1986
(CFAF millions)

RDA	1981	1982	1983	1984	1985	1986
Total RDA /a						
Subsidy	3,100.0	5,600.0	6,000.0	6,500.0	-	-
Net Subsidy	(2,900.0)	(5,400.0)	(5,700.0)	(6,100.0)	-	-
SODEVA						
Subsidy	1,573.5	1,439.6	1,698.4	1,925.2	-	-
Net Subsidy	(55.7)	(79.6)	100.3	123.0	-	-
SAED						
Subsidy	-	-	-	-	-	1,953.0
Net Subsidy	-	-	-	-	-	0.0
SODEFITEX						
Subsidy	18.9	351.0	85.2	198.2	170.6	434.0
Net Subsidy	24.2	100.8	119.2	41.9	112.6	38.0
SODAGRI						
Subsidy	200.8	253.4	-	270.0	366.0	407.0
Net Subsidy	11.1	31.7	1.2	(0.3)	9.6	(20.0)
SOMIVAC						
Subsidy	-	-	-	-	-	479.0
Net Subsidy	-	-	-	-	-	(431.0)

Sources: World Bank, Parapublic Sector Review, Annex I, February 1989 and The World Bank and Senegal, 1960-87, August 1989.

/a Includes SAED, SOMIVAC, SODEVA, SODEFITEX, and SODAGRI

— the notion that liberalization or disengagement will bring forth an automatic and quick private sector response. Finally, there is the critique that removal of fertilizer subsidies was bad policy reform.

Rice Pricing, Cereals Protection, and Import Substitution

Throughout most of the 1980s the donor community, including of course the World Bank, put major emphasis on a higher price for imported rice as the centerpiece of food policy. This conception appears in SAL I, during the donor common front period between 1983 and 1985, and in SALs II and III. The underlying analytic rationale is well known. Increased import taxes on rice are necessary to discourage rice consumption, encourage local rice production, increase (by changes in relative prices) the demand for millet and maize, and thereby raise output of all domestic cereals, but particularly the coarse grains. The result would be greater food self-sufficiency. The GOS Cereals Plan of 1986 aimed to raise the ratio of domestically produced to total cereals consumption from 50 to 72 percent between 1986 and 2000.

While many donor representatives privately recognized that this was a hopelessly optimistic target, they rarely challenged it publicly because they viewed the underlying policy as being in the right direction. However, elementary economic analysis suggested that the import substitution idea had severe flaws, or at least would entail very high social and economic costs.

The argument is well known and has been put especially strongly in some recent research. First, elasticity of supply tends to be low in Senegalese circumstances of traditional technology, poor transport, and undeveloped marketing systems.[21] Recent modeling confirms and expands the earlier findings by A. Braverman and J. Hammer about the costliness of import substitution policies. Rice and millet show only weak supply responses to price increases in these models because of limited land and because millet and sorghum are much less profitable than groundnuts. A doubling of cereals prices in these modeling exercises increases the rate of self-sufficiency by less than 10 percentage points.[22]

The macroeconomic and distributional effects of higher rice import prices are mainly negative. When rice prices rise, consumers' real income falls, they spend less on food, and their nutritional status worsens. Incomes in rural areas will tend to fall too, if the millet price rise by itself is insufficient to raise millet production to desired levels. In this case, which is not improbable, producer prices for groundnuts would have to be cut in order to make millet (or maize) production more attractive for farmers. The result desired is a decline in groundnut production and exports, a reduction in rice imports and consumption, and a rise in millet production and consumption. The overall impact on national

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[21] For a succinct expression of this view, see C. Delgado, "Structural Adjustment and the Speed of Aggregate Agricultural Supply Response in sub-Saharan Africa," CLD Price Policy Conference Brief, IFPRI, Washington, D.C., 1988.

[22] F. Martin and E. Crawford, "Analysis of Alternative Producer Price Policies in Senegal Using a Micro-Macro Modeling Approach," Staff Paper #88-181, Department of Agricultural Economics, Michigan State University, 1988. According to this and related work, maize supply is more responsive to price, but its demand is constrained because it is hard to prepare and because supply instability forces livestock-raisers to rely on imports.

income, on the balance of payments, and on the state budget is negative. The impact on rural income would probably be negative.

In pursuit of its food self-sufficiency objective, Senegal thus necessarily pays a price in terms of these income- and export-related goals; and given the claimed low elasticities of substitution on the producer and the consumer side, the price of greater self-sufficiency would be high. This will continue to be so unless relative world prices of groundnuts and rice were to shift so that it became more profitable for Senegal's farmers to grow millet, maize, and rice than to grow groundnuts; or unless and until technological change (much greater efficiency in local cereal production) brings about that result.

The distributional consequences of cereals protection are also negative. At least in some parts of Senegal, net sellers of grain are a minority of farm households — fewer than a third in one region in southeast Senegal in 1986-1987, or about as many as were net buyers.[23] Moreover, 15 percent of the households in this sample were responsible for 80 percent of cereals sales. To the extent that these findings are general, relatively few farmers benefit from higher cereals prices.

The conclusion from this analysis is that it was wrong for the donors to put protection and import substitution so much in the center of the agricultural adjustment program. World Bank staff and others would point out that, given the periodically low prices of rice on world markets and Senegal's inability to use exchange rate policy to deal with its overvalued CFA franc, there was no alternative to protection — if for no other reason than to deal with the overvaluation problem. This is now the prevailing doctrine among Bank staff concerned with Senegal. Judging from the common agenda presented by donors in the negotiations over the agricultural SECAL, the doctrine is now shared by most of the donors, who believe that the protection against imported rice is necessary. Some debate remains about how much protection is desirable beyond that necessary to compensate for CFA overvaluation.

Floor Pricing of Coarse Grains

A second component with uncertain analytic underpinnings is the request to establish floor prices for coarse grains. This is a complicated question over which reasonable people disagree. On the pro-floor price side is the argument that without some such mechanism, unstable prices will discourage farmers from expanding production. After all, price supports are common almost everywhere, including successful Asian food producers like Thailand, Indonesia, and to a lesser degree, India.

But strong arguments exist against the setting of floor prices and a buyer of last resort role for cereals boards:

- The maintenance of a floor price is a costly policy, because short-term demand is inelastic, and supply variable, due to rainfall variations. Prices and marketed volumes, therefore, are volatile, so high costs are involved in purchasing the crop in bumper years.

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[23] S. Goetz et al., "An analysis of the Effects of Changes in Marketing Institutions and Policy on Cereals Producers and Marketing Agents in S.E. Senegal," Department of Agricultural Economics, Michigan State University, 1988.

- Farmers do not believe that floor prices will be maintained, because cereals boards have almost never in the past been able to buy, at official prices, all the grain offered in good years. To establish credibility, it would be necessary to purchase all offered supply even during a succession of bumper crop years, which would be prohibitively expensive.

- Financial costs of carrying large stock are high, management demands onerous, and heavy losses can be incurred through spoilage. In 1978-1979, ONCAD bought and stored 108,000 tons of millet for higher than free market prices; much was ultimately spoiled.

- Border trade is often substantial. Sustaining a floor price that provides higher income to farmers in neighboring countries is charitable, but not good food policy.

- The macroeconomic effects of a successful floor price arrangement would probably be negative. Production of substitute crops (groundnuts, cotton, possibly cowpeas) would suffer; real income, export earnings, and economic growth would probably be lower.

- There are usually more productive ways to spend the money that is needed to finance a floor price: infrastructure expansion and maintenance, for example; reduced taxes on farmers; or simply budget deficit reduction.

- The distributional effects may be negative if most farmers are net cereals buyers and most marketed production comes from a small minority of growers.

For these kinds of reasons, the World Bank and USAID have moved away from floor pricing, despite its previous place in Bank and USAID conditionality and in the Policy Framework Paper. Other donors have been more reluctant to accept the position that coarse grain markets should operate without intervention. The FED (EEC), for example, has proposed open market operations to stabilize prices within a band based on past trends. Since the mid-1980s, successive years of bumper crops combined with budget pressures and management weaknesses of the CSA have rendered this issue moot; all donors now recognize that "support" or "stabilization" of coarse grain prices is not feasible.

The point to be emphasized here is that the floor pricing question was not well analyzed or argued, does not seem to have been a subject for serious debate, and in the end only allowed the CSA to make ill-advised interventions, as in 1985-1986 and 1986-1987 when 18,000 and 3,000 tons were bought at above-market prices. Minimal benefits resulted from such interventions. Payment of above market prices for a small part of the marketed crop provides little producer incentive; it is mainly a transfer to those farmers lucky enough to sell at the above-market price. Some continue to argue that properly tuned interventions can have real impact, but the evidence is sketchy.

Privatization of Rice Imports

The program to privatize rice imports is now said to have been an error. The likely benefits were few. It was not intended to lower prices; in fact significant economies of scale would have been given up. Retail prices remained fixed, and inadequate allowance for transport costs meant that, outside of the Dakar region, competition would not be increased. There were evident risks of fraud, and the program neglected the difficulties of small operators in a financial system that was increasingly illiquid. Proper analysis might have allowed a more suitable privatization effort.

Analytic Foundations Unjustly Criticized

If three important parts of the agricultural adjustment effort were based on inadequate analysis, there are several other components that have been unjustly criticized.

Price Policy

The first such criticism is that price policy has been overemphasized, and "structural" factors neglected. This has become received doctrine. Supply elasticities are so low, it is argued, that prices alone would not provoke greater output. Production is constrained by inadequate technology, poor transport, absence of good extension services, credit systems, and input supply organization.

The World Bank is heavily bashed for price policy fetishism in the internal evaluation, *The World Bank and Senegal, 1960-1987*. The evaluators point out (pp. 101 ff.) that econometric evidence shows rainfall to be the major determinant of agricultural output in Senegal, with prices having no clear impact. They also cite studies showing very low short- and medium-term supply elasticities in Africa. They note that nevertheless: "Significant growth in agriculture has been postulated in Bank documents since 1980 on mere price effects."

Two responses are called for. There are, first of all, the facts. As noted earlier, real producer prices did not, in fact, rise much if at all in the 1980s. The aggressive "incentive price" policy implied in SALs and GOS policy statements was not implemented. It seems off the mark to attack the adjustment program for overemphasis on price when in reality the price instrument was hardly applied.

Secondly, nobody denies the importance of research, infrastructure, and services for farmers. Whether more infrastructure is needed is a question whose answer depends on demonstrated needs in particular places. Research bottlenecks are often organizational, not financial, although in the Senegal case it may be true that funding has been inadequate. And better farmer services in Senegal are constrained by institutional bottlenecks. Capacity to deliver extension services, credit, and better and more timely inputs is extremely limited. Price policy, meanwhile, can be a relatively simple instrument with great potential punch. It is, therefore, not wrong to focus on prices simply because all the ancillary structural factors are not in place.[24]

Excessive Stress on Deficit Closing

The second unjustified criticism is that too much of the adjustment program has been driven by the need to save public money. This is one of the main arguments that runs through the ODI study by

[24] See Elliot Berg, "Rice Marketing Liberalization in Madagascar," in *World Development*, May 1989.

Commander, Ndoye, and Ouedrago. It is also a central theme in *The World Bank and Senegal, 1960-1987.*

The first thing to be said about this is that if anything has been learned in the past decade, it is that without macroeconomic stabilization, adjustment is impossible. So it was right to give budget deficit-closing the high priority it received in Senegal. Budget cuts could undoubtedly have been made in more rational ways, using growth and equity criteria, but it is not evident that the sectoral pattern of expenditure cutbacks was particularly noxious, especially after 1985.

Secondly, this argument does little justice to the accumulated evidence on parastatal organizational and policy failures. The RDAs established over the past 20 years a practically unbroken record of poor performance. It is not just to cut budgets that the GOS and the donors sought to redimension SODEVA, SOMIVAC, SODAGRI, and SAED, among others, and allow private agents a bigger role. Such an institutional change is fundamental to structural adjustment.

"Vacuum Theory of Privatization"

The charge that Senegal's agricultural adjustment program rests on "a vacuum theory of privatization" is the third dubious criticism.[25] This idea, that private traders can immediately fill the void left by state withdrawal from the market, is said to be contradicted by recent research.[26] The same kind of criticism is made in *The World Bank and Senegal*, whose authors accuse the Bank of having imposed "incomplete conditionalities": requiring state withdrawal without assuring private sector capacity to assume the relinquished functions.

Part of the problem here is what is meant by "immediate." It is unrealistic to expect much new commercial activity by 1988, when markets have been liberalized only since 1986. But there is more to it than that. The state withdrawal is often partial or ambiguous, as, for example, with the continuation of RDA activities largely unchanged for four to five years after their announced cutbacks, or the lack of clarity in the January circular on coarse grains liberalization. Traders and others do not know about the changes, or are often skeptical about them. The playing field is rarely evened out, despite liberalization; parastatals or "cooperatives," for example, continue to be subsidized in many activities from mechanized land preparation to cereals purchases. These factors obviously obstruct the vacuum effect; there is less vacuum than there seems to be, and the actors who would fill it are constrained by unfair competition. Even so, vacuums arise and economic agents respond. In the Senegal River Valley, there is a burst of new private activity. (The boom across the river in Mauritania provides a far more dramatic example.)

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[25] The term is give in T.S. Jayne and N. Minot, "Food Security Policy and the Competitiveness of Agriculture in the Sahel: A Summary of the 'Beyond Mindelo' Seminar," AID/Washington and Michigan State University, 1989, p. 2.

[26] Ibid.

Fertilizer Subsidy Reduction

Finally, fertilizer subsidy reduction has come under attack — in the OED paper, and from other sources. The World Bank's MADIA paper on fertilizer policy in Africa is ambiguous on the subsidy issue, only warning against oversimplified "good" and "bad" judgments.[27] The Senegalese in any case have always been in favor of these subsidies, most dramatically in the SAL I period. The GOS has requested that they be reintroduced in the SECAL under discussion.

Both *The World Bank and Senegal* report and the 1989 consultants' report on fertilizer, which was discussed earlier, call for the reintroduction of fertilizer subsidies. (The Bank report is tentative, suggesting that opposition to subsidies be reconsidered.) The arguments put forward are not convincing. The main argument in their favor is that subsidies encourage the use of productivity-raising and soil-conserving practices in the face of farmer lack of knowledge, lack of access to credit, and hesitation to risk cash expenditures. But, in Senegal, subsidies have gone on for at least 20 years, so most farmers now know about fertilizers; the economic profitability of fertilizer use is not clearly established; the dosages recommended in the past were often inappropriate and wasteful; financial costs in any case can be heavy and tend to grow; distribution is often late and rationing arrangements inequitable; the emergence of a private sector distribution system is often discouraged; and better incentives are created by substituting higher product prices for the input subsidy. In addition to its other advantages, substitution of higher product prices for subsidies on chemical fertilizers does not discourage use of nonchemical soil-enriching techniques, which are more appropriate to Senegal's needs than the use of chemical fertilizer.

In the recent debates, partisans of restored subsidies base their case on soil conservation needs. The technical evidence presented is sketchy, and the economics doubtful, even when environmental implications are taken into account. What is not mentioned in those recent discussions are findings from research in Burkina Faso that indicate declining soil fertility after five to seven years of chemical application.

Other Deficiencies of the Sectoral Adjustment Program

There were deficiencies in the program other than analytic ones.

- Reliance on studies has been excessive, especially in price policy. From the late 1970s on, at least three studies on agricultural pricing were commissioned — two from SONED (1977 and 1982) and one from SEDES (1988). The stated objective was to put price making on a more scientific basis. But none of these studies had an observable impact on price setting. The first two were rejected because of inappropriate modeling. The last was also contested on analytic grounds; some expatriate economists regard it as technically flawed. But in any case its main recommendations were ignored; it called in 1988 for a groundnut price no lower than 80 CFAF/kg and a consumer rice price no

[27] Lele et al.

lower than 160. The GOS in that year cut the groundnut price to 70 and the retail rice price to 130.

- For 10-15 years, everybody has known that millet and maize cannot begin to win consumers away from rice unless they are made more convenient to use and to store. Research has been funded for years, and various trials launched. Local TV and newspapers claim that the new millet processing technology is operational. But somehow almost nothing had happened by the end of the decade. One of the local wheat millers, SENTENAC, was given major responsibility for introducing millet processed by the new techniques. The experiment has had little effect.

- Some high-priority issues have not been given much attention, at least until very recently.

  - The land tenure issue is most basic. In Mauritania, tremendous development followed a 1983 land tenure law that gave easier access to land along the Fleuve. On the Senegalese side, there are said to be many farmers and other entrepreneurs impatiently awaiting similar access. Senegal's democratic political institutions permit less freedom of action in land matters, but bureaucratic obstacles and neglect may also explain the slowness of change.

  - It is not clear that enough has been done to finance agricultural research, given that inadequate technology is a major constraint.

  - Credit policy has received only limited attention.

  - Population or family planning policies have been treated in a pro forma fashion. The Bank has accepted symbolic progress, such as an official announcement that was mildly pro-family planning.

- The process of negotiating the reform program was poor at the outset (SAL I). It was Bank led, with little Senegalese participation. There were some contradictory Bank/Fund agreements.[28] In the period 1983-1985, there was much more extensive dialogue, as well as intensive coordination among donors. After 1985, the Bank took the lead again, although the Americans and French continued to play important roles. The agricultural SECAL that has been in preparation since 1988 introduced two innovations. Three

[28] In October 1981 the GOS agreed with Bank staff to sell fertilizers only for cash, to limit the subsidy to 50 percent of the cost price, and to reduce the quantity of centrally distributed groundnut seed from 120,000 to 80,000 tons. In November, the IMF persuaded the GOS to sign an agreement that raised rice prices 31 percent, abolished fertilizer subsidies entirely, and put the seed stock back up to 100,000 tons.

donors are in it together — the Bank, the CCCE, and the FED.[29] And there is much more lengthy and intensive dialogue between the GOS and the donors. The draft SECAL (PASA) has been discussed line by line in formal donor-GOS meetings.

- Administrative feasibility has not received sufficient attention in the framing of the reform programs. The number of conditionalities in the SALs grew substantially between SALs I and III. (SAL IV is more focused, however.) The failure of SAL I was at least in part due to the impossible administrative or organizational demands put on SONAR and the cooperatives by the proposed voucher system for seeds.

VI. CONCLUSIONS

The World Bank's first SAL in 1980 was largely an agricultural sector policy loan, and agricultural policy reform was important in later SALs and in bilateral policy dialogue. So it is fair to say that Senegal's adjustment effort in agriculture is at least 10 years old. In fact it is older. The Sine-Saloum project of the Bank and the Caisse Centrale involved intensive dialogue about rural institutions, notably cooperatives, and Bank projects in the 1970s generated debate over producer price policies and fertilizer and other subsidies.

The decade or more of dialogue and policy innovation in the agricultural sector has had many positive results, especially since 1985.

- The market for coarse grains has been deregulated and steps taken to implement the announced national food strategy of reduced dependence on imports. Thus restrictions on free entry to domestic trade were lifted in 1986, controls on grain prices were sharply reduced, and legal controls over shipments of grain between regions largely eliminated. The volume of commercial rice imports was kept at the 340,000-ton ceiling agreed upon in 1984. (This was so at least until 1989, when the ceiling may have been exceeded.) The efficiency of foodgrain markets is being improved by the gathering and publicizing of market prices of major food crops. The role of the CSA has been limited to managing the food security reserve and stabilizing coarse grain prices by maintaining a minimum (floor) price. Numerous research experiments have been financed to develop improved processing techniques for coarse grains, and trials launched to market the resulting products.

- In fertilizer policy, which is a major area of dialogue and conditionality, direct subsidies from local budget resources were dropped, eliminating the high subsidies (about 50

[29] One indication of slippage in donor coordination is the fact that the WB/CCCE/FED groups were unaware until mid-1989 that USAID was preparing an Agricultural Sector Grant covering many of the same policy issues. USAID has since joined in the dialogue over the preparation of the agricultural SECAL.

percent of cost, on average) that had existed since the 1970s; donor-financed subsidies were gradually phased out between 1985 and 1989; and imports of mixed fertilizers were liberalized. New private sellers have appeared -- at least in the Dakar region and the Senegal River Valley.

- In the groundnut subsector, farmers now are responsible for storing their own seed and 70 percent of them do so — a big change in a few years. Some deregulation has occurred: private buyers (OPS) are authorized and the cooperatives have a relatively bigger role than before. Free distribution of seeds has ended, as have subsidies covering the fixed costs of the refineries. Management deficiencies of the main groundnut parastatal, SONACOS, have been made transparent by audits, and significant cuts have been made in costs of processing and marketing.

- Some of the major agricultural parastatals now run better as a result of better definition of tasks, stronger management, and better information. Abundant technical assistance has helped. Thus the CPSP is said to have become much better managed after 1985, and management audits have clarified management problems and policy issues in such important agricultural entities as the privately owned sugar company, CSS, the CSA, and many of the agricultural RDAs. Large-scale technical assistance has been given to the sector, including an estimated 20 technical assistance projects to strengthen the Ministry of Rural Development.

These institutional and policy improvements, and others not mentioned, are by no means negligible. Nor did they come easily. They are the fruits of many months of reflection and dialogue and many weeks of negotiation, by donor staff and Senegalese officials. They represent genuine progress in making the policy environment more suitable for growth, and probably more equitable as well. But do they constitute structural adjustment?

Putting the question so crudely naturally leads to the prior question: in a country like Senegal, just what does "structural adjustment" mean? Most evaluations look at improvement in economic performance indicators such as growth in GDP, in exports, or in investment rates. This is the approach in many of the World Bank's evaluations — its 1988 *Report on Adjustment Lending*, for example.[30]

Although such indicators are the bottom line, there are other criteria to measure effective "adjustment." We could also look for changes in agricultural productivity, indicated by adoption of new crops, new techniques, or energy-unleashing institutional changes, as in China after 1978. These might for various reasons not show up right away in output indicators. Change in the distribution of asset ownership and relative income levels could be another indicator of "adjustment." Have land rights changed in any dramatic way? Have new land tenure laws facilitated new activity? Or "adjustment"

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[30] See also World Bank and UNDP, *Africa's Adjustment and Growth in the 1980's*, 1989; and K. Cleaver, "Agricultural Policy Reform and Structural Adjustment in Sub-Saharan Africa: Results to Date," World Bank Africa Department I, 1988, cited in Hans Binswanger, "The Policy Response of Agriculture," in *Proceedings of the World Bank Annual Conference on Development Economics*, 1989, pp.231-58.

might be defined in institutional terms — a basic change in the public-private mix, for example, or a measurable jump in organizational competence in the public sector. Finally, it could be defined in terms of "learning" — whether economic understanding has increased or gaps between rhetorical sociopolitical objectives and actual policies have diminished. These and similar criteria for assessment of structural adjustment programs are less tangible and more subjective than the simple output measures. But they are more meaningful in short- or medium-term evaluations, since there are so many intervening variables between policy measures and output changes — most particularly, rainfall and world price changes.

We briefly assess the evidence that agricultural adjustment has occurred in Senegal since 1980, according to the criteria mentioned above.

Growth

First, on growth: there is little evidence that Senegalese agriculture has moved onto a new growth path. Tables 3.1 and 3.11 show production of major crops during the 1980s, compared with average output in the latter half of the 1970s. The substantial differences between the series in these two tables are indicative of the data uncertainties that bedevil any assessment. Nonetheless, it is clear that aggregate output shows no clear trend. Developments in the late 1980s have not changed the conclusion of the existing econometric studies: rainfall is by far the principal determinant of output variations. However, some fairly dramatic intrasectoral shifts have occurred between export and food crops: groundnut production declined by some 30 percent between 1975-1979 and 1985-1989 and cotton was stagnant, but maize output rose by 170 percent, rice by 20-40 percent, and millet/sorghum by 15-35 percent. Why this happened is not clear. It cannot be attributed to adjustment policies; as noted earlier, relative prices in the 1980s did not move significantly in favor of food crops. It may be that the production data are unreliable, or that the official prices for food crops are misleading; market prices for food crops may have been systematically higher during the 1980s, though available evidence indicates that this was not so for the later years of the decade.

The data show no general rise in aggregate output, other than that explainable by good rainfall in the last half of the decade. Nor is there evidence of increased productivity of land or labor. (The figures for area under cultivation and yield per hectare show little trend and are of especially dubious quality anyway.) Farmers have not acquired much new capital stock over the decade. If anything, decapitalization may have occurred, as some observers claim, because of the disappearance of the *Programme Agricole*, with its array of input subsidies, in the early 1980s. And the research stations have produced very little if any usable new technology, biological or other. However, some observers say that there have been significant productivity increases in maize production, which explains its rapid growth, and this might be an indicator of structural change.

The only other indicator of structural change looked at from the perspective of changes in output or income is the turnaround in rural-urban terms of trade, which took place in the adjustment decade and is related to adjustment policies. Food crop sellers, cotton growers, and to a lesser extent groundnut producers, all did better than urban unskilled workers or civil servants during most of these years. But incentive effects were muted since real producer prices fell compared to the 1970s and were at best slightly improved compared to 1980. Distributional implications of the altered terms of trade are not clear, since net food sellers are probably a minority of farm households, and may comprise no more than

TABLE 3.11

PRODUCTION OF MAJOR CROPS, 1975-1989
(1,000 tons)

Year /a	Groundnuts	Cotton	Millet/ Sorghum	Rice	Maize
Average 1975-1979	1032	39	606	117	44
1980	673	27	521	97	46
1981	521	21	545	65	57
1982	870	38	736	120	68
1983	1,092	44	585	105	82
1984	569	31	352	109	61
1985	682	34	472	136	99
1986	587	38	950	147	147
1987	841	27	634	148	108
1988	963	36	801	136	114
1989	723	45	594	145	123

Sources: USAID/Dakar Bank Printout, September 30, 1988; and MDR, Direction de l'Agriculture, "Résultats Définitifs de la Campagne de Production Agricole, 1988-1989," January 1989.

/a Years refer to crop years. Thus 1989 is for crop year 1988/89 (harvest end 1988).

20 percent of the total. And the durability of this change is also questionable; the cut in groundnut prices in 1988 already narrowed most of the advantage of groundnut farmers compared to urban workers, and wage increases in 1989 may have removed the advantage altogether.

This evidence, then, suggests that the 1980s have seen very little structural adjustment in Senegalese agriculture, as defined by the conventional output or income indicators, and such changes as are observable (such as the apparent shift in output mix from export to food crops) cannot be linked to price or cereals policy changes. This reflects the fact that despite serious attention to cost-cutting in the groundnut and cotton subsectors, Senegal's competitiveness remains precarious.

Softer Criteria Assessment

Assessment according to the other, softer criteria mentioned above does not yield many more positive conclusions. The state has pulled back a little from its previous role as regulator and as supplier of inputs and buyer of outputs. But parastatal and semipublic sector institutions (cooperatives) remain dominant in the *organization du monde rural*. The groundnut sector remains heavily controlled. Regulatory loosening up is often partial and recent, and the playing field does not always allow fair competition between public and private actors. For these and other reasons, no decisive shift has occurred in the public-private allocation of responsibility for rural service provision, no new entrepreneurial class has come on the scene, the existing class of rural intermediaries has undergone no substantial growth or transformation — except perhaps in the Senegal River Valley.

The agricultural parastatals have been strengthened by audits, technical assistance, and infusions of aid money, but almost all remain highly dependent on external financing even for salaries and basic operating costs. The Ministry of Rural Development has attracted much technical assistance and other aid. It remains weak, however. And institutional capacity in the agricultural sector in general is if anything weaker today than a decade ago, mainly because of the institutional fragmentation that has accompanied policy-based lending. Agricultural policy and management responsibilities are now divided among a score or more of agencies. In addition to the RDAs, the CPSP, and the CSA, there are many new coordinating or implementing entities — for example, the Comité de Suivi Technique (for the SALs), the Common Fund (which manages, with GOS participation, the allocation of counterpart funds generated by food aid), the CPSP and CSA, various donor-sponsored sectoral committees, and many others.

Finally, it is not clear that much "learning" has taken place. Some Senegalese officials have become much more knowledgeable about agricultural policy matters, and about dealing with the international financial institutions and bilateral donors on policy issues. The volume and quality of economic policy debate has also increased, within government and in the community at large. But the number of civil servants who have been intensively involved is not large. The front-line technical work was shared with the many technical assistance people scattered in the various sectoral entities and economic ministries; there are 2,000 foreign experts in Senegal, almost as many as in 1960, and while many are teachers, a fair number are in agricultural agencies. While the high-level negotiating and staff work, for SALs, for example, was mainly done by Senegalese, it concerned only a handful of officials. The GOS capacity to produce quality analysis remains extremely thin. When one asks in Dakar whether there are now a significantly greater number of Senegalese officials who think more cogently about agricultural strategy and policy than there were a decade ago, the responses are mixed but not very positive. And the level of debate in the press, in university circles, and during the 1988 election campaign gives little evidence of substantial improvements in recent years.

Why so Little Success?

On none of these counts, then, tangible or intangible, can much evidence be marshaled that indicates basic improvement or "structural adjustment" in the past decade. How is this explained?

One clear and general reason is that adjustment takes time — more even than the 10 years under review here. And the general factors that impede reform, such as those noted at the end of Chapter Two, also operate in agriculture, perhaps with special force. The important legal changes that were implemented had little real impact, since they simply confirmed existing market realities. The best example is the liberalization of millet and maize marketing in 1985-1986. It removed licensing requirements and movement restrictions that were already regularly flouted; most transactions already took place in the illegal parallel market before 1985.

It can also be argued that the policy prescriptions were wrong. This is one of the main conclusions that emerges from other recent evaluations, such as the World Bank's own study (*The World Bank and Senegal, 1960-1987*), and the 1988 study by Commander et al. The misplaced emphasis on price policy comes under fire in these and other analyses. The Bank study also criticized the emphasis on fertilizer subsidy reduction, and the naivete regarding the possibility of privatizing rural institutions. This study also points to neglect of the potentials of irrigated agriculture and research.

We argued earlier in this paper that the cereals or food policy, which is the centerpiece of the agricultural adjustment program, has weak analytic support. In this sense, we join the critics. But this does not mean that superior options were (or are) at hand. Given the nature of world rice markets and the persistent overvaluation of the CFA franc, without some cereals protection, local production would continue to provide declining shares of local food consumption. The debate was always about how much protection is appropriate.

The adjustment policy package in agriculture was (and remains) appropriate: some protection for local cereals, reduction of subsidies, and reduction of the state's role in production and marketing. Errors have occurred. The early seed policies were too cumbersome administratively. The liberalization of rice importing could have been pursued with greater energy and imagination. Conditionality on technically uncertain policies such as rice protection should have been less prominent. It might have been possible to confront the overvaluation issue more directly and creatively.

The basic problem in assessing the suitability of the agricultural policy package is the uncertainty that surrounds the two issues most basic to agricultural policy: the right level of protection for domestic cereals production and exchange rate overvaluation. During the early and mid-1980s, there were reasons to believe that the latter problem could be resolved by direct action on exchange rates — in other words, by fiscal and monetary restraints and gradual erosion of real wages. By the end of the decade this option became increasingly improbable. But the political and institutional implications of a changed CFA parity were so complex and so delicate that they could not be faced squarely.

In any case, the suitability of the adjustment policy package cannot be blamed for the limited results of the adjustment program, since the most important elements of the adjustment program were not implemented at all or only partially implemented.

- Real producer prices were not raised systematically to "incentive" levels.
- The consumer rice price, the cornerstone of the whole structure of cereals policy, was only temporarily increased close to the levels called for by the import substitution strategy of the Cereals Plan of 1986. Rice remained more attractive to consumers than millet or maize.
- Nor were relative producer prices changed in line with the official strategy: groundnuts remained more remunerative than millet, and between 1985 and 1988 much more so.
- The liberalization of rice imports quickly aborted, *verité de prix* in domestic marketing of rice was never tried, and the subsector remains largely controlled.
- The CSA was unable to stabilize and support coarse grain prices. Its interventions were few and generally ineffective.
- Institutional reforms did not reach any depth. For four years after the 1985 announcement of the *dépérissement* of the RDAs, their employment levels changed little — relatively less than they did between 1979 and 1984, when there was no formal plan to shrink the state. Despite a more favorable attitude toward the private sector, foreign investors stayed away; revision of the Investment Code did not stop capital flight, much less attract new resources. Ambiguities in the deregulation instruments, persistence of subsidized services and inputs by the RDAs and by NGO-supported cooperatives, and other uneven features of the playing field constrained the emergence of new entrepreneurs.

Weak implementation derives in part from the Senegalese unwillingness to apply policies they felt compelled to agree to in formal policy loan documents. Many, perhaps the majority, of relevant officials were never convinced that removing fertilizer subsidies was a good idea, or that it made sense to privatize the import of rice, among other reforms. But lack of conviction or outright opposition to specific reforms could be translated into nonimplementation because of the permissive environment prevailing in Senegal. The presence of so many donors and their sympathetic concern for Senegal's poverty have meant that nonimplementation carries few costs, and few risks of donor sanctions. When faced with the domestic political risks of imposing an unpopular reform (for example removal of subsidies), the authorities have been inclined to risk donor wrath arising from violation of conditionality. It has certainly proved the appropriate course: sanctions are rare or nonexistent and aid flows mount.

The donor community has made nonimplementation easy in other ways. In the early period of reform, particularly under SAL I, detailed proposals for organizational change initiated by World Bank staff were too hurriedly devised and too complicated for the local administration. It was easy, for example, for officials to argue that the proposed seed scheme was unmanageable, and to abandon it.

There is also the factor of donor disagreement on policy specifics. Although these have substantially narrowed in recent years, earlier disagreements made a common front on policy issues difficult, except at a general, lowest-common-denominator level. It has been easy for dissenting Senegalese officials or political spokesmen to exploit this situation. The many difficulties that have arisen in negotiating the agricultural SECAL are in part a reflection of this situation.

Several implications of this analysis are worth emphasis. First, it should not be surprising that recent assessments of agricultural reform in Senegal, such as that of Commander, Ndoye, and Ouedrago, and the OED's study of the Bank's lending to Senegal since 1960, find no supply response in the sector. The sector has not been tested, since so few of the key reforms were implemented.

Secondly, case studies and microlevel analyses of reform programs can help in avoiding misleading exercises that compare country performance on the basis of whether they have or do not have an adjustment program.[31] We have to look inside those programs — look further than a simple listing of conditions — to determine the reality of policy implementation.

[31] See, for example, the Kevin Cleaver paper cited in the Hans Binswanger paper mentioned earlier.

CHAPTER FOUR

STRUCTURAL REFORM IN INDUSTRY

I. INTRODUCTION

The modern industrial sector in Senegal is far from insignificant.[1] It contributes more to national production than agriculture — 23 percent versus 20 percent in 1987 — although much of industrial output consists of agricultural processing. There are 600 registered industrial enterprises, of which about 120 qualify as modern, factory-scale entities. But the sector is not large in terms of employment, and not at all dynamic. The sector employs fewer than 30,000 people — only 1-1.5 percent of the total labor force in this country of seven million, and less than half the number employed in the civil service.

Industrial employment has shown little or no growth over the past decade; the 100,000 potential new annual entrants to the labor force have looked elsewhere for work. Between 1976-1985, the index of industrial output grew at an average rate of only 0.7 percent a year; at the end of 1985 it was still below the peak it had reached in 1979. In recent years, industry has certainly not played the "leading sector" role it once played in French West Africa, despite the high hopes held for it during the (over)optimistic years of the 1970s.

Today, Senegal's industry is in serious difficulty, searching for renewal and growth but experiencing hardship and decline. Its difficulties stem in large part from past policies, which favored industrialization at almost any cost — policies such as high protection, privileged long-term concessions to about 20 large firms, and heavy government participation in the establishment, ownership, and management of several large enterprises. As in many other developing countries, the result has been a ramshackle industrial structure with too many enterprises that should never have been started, many that are hopelessly oversized because of unrealistic expectations about market size and poor investment selection procedures, high costs of production, managements that are frequently lazy and complacent

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[1] The most useful background documents on Senegalese industry to come to our attention are the following: Vol. III (Industry) of the World Bank's 1979 four-volume Economic Report; Chapter VII (Industry) of the World Bank's 1984 Country Economic Memorandum; the 65-page document (General Report, Sectorial Meeting on Industry) prepared by the Government for presentation to a donor-group meeting hosted by UNIDO in Vienna at the end of 1987; the three-volume report on *Le secteur sécondaire au Sénégal* published by the Ministère du Développement Industriel et de l'Artisanat (March 1989); and two highly informative and reflective papers (end-1988, unpublished) by J.P. Desnot: "Retrospectif de l'industrie et du secteur sécondaire au Sénégal" (25 pages) and "La Nouvelle Politique Industrielle" (25 pages).

because they have little competition, and a heavy government role that generates chronic operating deficits that are covered by budget subsidies or bank credits. Those employed in the sector earn incomes considerably higher than most others in the society. But consumers, as well as the state budget — whose expenditures are raised to finance subsidies and whose customs revenues are cut as a result of import-substitution — are big losers.

Not all of Senegal's industry fits this negative picture. But the emerging sense of disappointment with past policies became so strong in the early 1980s that both the GOS and its principal donors agreed that new approaches were needed. The result was the New Industrial Policy (NIP) and its three-year Plan of Action (PA), which were formally adopted in February and July 1986, respectively. The NIP and its implementation has been a centerpiece of Senegal's structural adjustment program of the 1980s.[2]

As we review the attempt to restructure Senegal's industrial sector we will concentrate on four questions:

- Was the diagnosis of sector problems analytically sound?
- Was the remedial program well designed, in the sense that the priorities were appropriate, the reform instruments suited to their objectives, the time frame realistic, and the desired changes administratively feasible?
- Has compliance with program conditionality been good, bad, or indifferent? and
- What can be said about the program's impacts, or effects, after its first four years (1986-1989)?

Answers to these questions may help governments and donors decide what ought to be done in the future, not only in Senegal but elsewhere as well.

History

Although Senegal had made a start on industrialization before World War II, the main bursts of investment occurred during the quarter century following 1945. Private investment, overwhelmingly by expatriate French interests, dominated the scene up to and beyond independence in 1960. A free trade area of some 20 million people existed (L'Afrique Occidentale Francaise, or AOF), an area of which Dakar was the administrative and logistical hub and hoped to become the manufacturing center. The core of Senegal's present industrial structure was in place by independence — oil pressing; some building materials; phosphate mining; fish processing; and a few import-replacing consumer goods, led by textiles. In 1960, total employment in the sector was under 15,000. Not surprisingly, almost all managers and technicians were foreigners (overwhelmingly French). There was little or no competition in the product

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[2] Similar industrial restructuring programs have been pursued in a number of other sub-Saharan countries (See William F. Steel, "Adjusting Industrial Policy in Sub-Saharan Africa," *Finance and Development*, March 1988).

markets, which were well protected, and most imported materials and supplies came from the *metropole*. A trade union movement, closely linked to the French unions, was well established. The Labor Code, introduced in 1952, was closely patterned on French labor law.

New investment dried up in the 1960s for well-known reasons: independence in 1960 brought a socialist-oriented, African government to power; the break-up of AOF after 1960 fragmented the 20-million-person free trade area served by Senegal's industry; attempts to recreate regional markets had limited success; and the rise of industry in Cote d'Ivoire created new competition.

Participation of nationals in the sector was weak, and the growth of small-scale enterprise slow. This imbalance in the industrial structure led the GOS to establish, in 1969, a new industrial development agency, SONEPI. Its mission was to promote small and medium industry by identifying potential projects, encouraging the participation of nationals, and helping new enterprises get off the ground. Between 1969 and 1986, SONEPI conducted 445 feasibility studies, of which 142 are said to have resulted in projects.

The 1970s saw a new burst of industrial investment — most, though not all, by the government.[3] In 1974 the GOS created SONACOS to buy out the private mills processing the country's largest export product, groundnuts. SONACOS is today the largest industrial enterprise in the country. When phosphate exports became very profitable in the middle of the decade, the GOS bought 50 percent of the equity in the two mining companies (CSPT and SSPT). Other major investments were made in Salins du Sine-Saloum (salt mining), cattle slaughtering (SERAS), cotton ginning (SODEFITEX), and fishing. Plans were also launched for a large iron ore project in eastern Senegal, although it never got off the ground.

The industrial enthusiasm of the mid-1970s also produced another product — SOTEXKA, a large government-promoted, Swiss-backed integrated textile enterprise (two large mills, at Kaolack and Louga, which became operational in 1988). Over 90 percent of SOTEXKA's output is intended for Europe (the Lome Convention gives Senegal unrestricted access to the EEC).

A huge investment (over US$ 200 million) in an export-oriented phosphatic fertilizer and acid plant was made in the late 1970s. Long before the plant came on stream in 1984 the world market had collapsed, confronting the GOS with large annual losses (the plant employed about 600, at a cost to the GOS of about US$ 300,000 for each job created). In groundnut oil refining the GOS, rendered optimistic by two excellent years in 1975 and 1976, decided to replace an old 40,000-ton capacity mill with a new

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[3] A major factor in the government's thinking was its relationship with pre-1979 Iran. Iran had oil and needed phosphatic fertilizer; Senegal needed oil and had the phosphate. A joint company, IRASENCO, was formed. It planned a big oil refinery in Senegal, an ammonia/urea plant, and a phosphoric acid/fertilizer plant. Some or all of these were to be built at a new deep-water port near Cayar, where a city of 200,000 would be built. The Shah's fall killed these plans. Two other schemes that never got off the ground were an electric furnace steel mill, based on scrap, to be built in Dakar, and a pulp mill to be built in the Fleuve delta, where it could use *bagasse* from the big new private sugar mill (CSS), and rice mill hulls, as raw material. Skyrocketing oil prices made it profitable for the sugar mill to use its *bagasse* waste as a fuel rather than sell it to someone else.

200,000-ton mill (SEIB). It has always operated well below capacity and has been a consistent money loser. SONACOS finally took it over in 1986.

Another large government industrial initiative was the opening, in 1976, of the Industrial Free Zone (IFZ) in Dakar. Six hundred and fifty acres were reserved for this project, of which 60 were developed in the first phase. Twelve years later, at the end of 1988, the Zone had only eight firms, employing 436 people — a severe disappointment.

A similar overreaction to short-term trends led the GOS to believe that the closing of the Suez canal in 1973 and the earlier trend toward around-Africa supertankers could make Dakar a major ship repair center and convert Dakar Marine into a viable government enterprise. When the canal reopened in 1977 and canal-scale tankers came back into vogue, plans were scaled back in hopes that Dakar Marine could survive on small-ship and fishing vessel repairs. A huge floating drydock was purchased in 1981, but has rarely been used — a costly gamble. Also costly, although less so, was the decision of SOCOCIM (the country's one cement plant) to reduce its energy costs by changing its technology (from a wet to a dry process) and, when doing so, to expand capacity from 350,000 tons to 850,000. This was done, at large expense and with no increase in employment. Unfortunately, the expected growth in the market did not occur, so the energy savings have all been eaten up by having to operate a large mill at about 40 percent of capacity.

By the mid-1980s, the GOS was either the majority or a major shareholder in 15 industrial firms; 70 percent of its equity, however, was concentrated in oil milling and phosphates, two "strategic" industries which were exempt from the new policy of disengagement. In more recent dialogue over SAL IV and the agricultural SECAL, privatization of the oil mills has been put on the table, indicating that they are no longer exempt from disengagement policy.

II. DIAGNOSIS

The problems of the industrial sector and of trade policy related to industrial development were clear by 1980. The following elements were part of the World Bank diagnosis, but were widely shared.

Overprotection

First, the industrial sector was highly protected and largely noncompetitive. The trade and industrial policy followed from 1960 was intended to encourage import substitution of consumer goods. Customs charges[4] have always been high; this legal tariff protection tended to increase at the end of the 1970s. With a view to rationalizing and simplifying the tariff system, the preference given to imports

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[4] These charges consist of the *droit de douane* ("customs duty") itself and the *droit fiscal* ("fiscal tax"); the latter varies greatly according to the nature of the products (see structure of tariffs, Table 4.3).

from the EEC was eliminated.[5] In August 1980, the customs duties were increased from 10 percent to 15 percent.

Import-substitution enterprises producing consumer goods were the most highly protected. These very capital-intensive firms produced high-cost, low-quality goods that consumers rejected, when possible, in favor of imported goods (legal or illegal). Nor were there any incentives in the system of protection to produce intermediate inputs domestically. The import-substitution sector thus operated most of the time way below capacity.

Given the high profitability of domestic markets, the industrial sector was not export oriented. Overall, the export sector has experienced serious difficulties since the end of the 1970s: exports, excluding groundnuts, fell by 20 percent between 1977 and 1984. Only fish exports rose. This weak export performance was due primarily to the overvaluation of the national currency at the end of the 1970s, but the greater relative attractiveness of domestic markets also played a role. An export subsidy scheme introduced in August 1980 provided inadequate compensation and seems to have faded away during the mid-1980s.[6] The fact that labor and nonlabor costs were relatively high worked against competitiveness, even in West African regional markets. For example, power costs were roughly twice as high in Dakar as in Abidjan, and other nonlabor costs were also higher.

Not only were average nominal tariffs high, but the range of rates was wide and cascaded — finished goods were much more highly protected than raw materials and intermediate inputs. And on top of this, numerous goods enjoyed tariff exemptions and special privileges that derived from the Investment Code or from *conventions spéciales* (see below): duty drawbacks, temporary admissions, and tariff relief granted by administrative order. There were also quantitative restrictions (QRs) on numerous commodities. The precise extent of QRs is unclear. According to some sources there were 160 products benefitting from QRs in 1984. Earlier, somewhat harder information, derived from a review of nontariff protection in the late 1970s, indicated that only 30 local firms were benefitting from either import prohibitions, quotas, or preliminary authorizations. This report concluded that the stronger and older the protection, the weaker and less export minded were the firms which benefitted from it.[7]

This system was undoubtedly highly protective, but it was so complex and so opaque that no reliable estimates exist of levels of effective protection in the early 1980s. It is known that in 1984 the average rate of nominal tariff protection was 86 percent, while imports paid an actual rate of less than

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[5] Imports originating in the EEC were formerly exempt from customs duties (only internal taxes were applied to them); they were first taxed at a preferential customs rate of 5 percent (instead of 10 percent), then in February 1980, after a protest from GATT, the tariff preference was completely eliminated (customs duty of 10 percent identical) for all products except those of CEAO and CEDEAO origin.

[6] The subsidy covered five products and was granted at a rate of 10 percent of fob value. In 1983 it was extended to 25 products and set at a rate of 15 percent of fob value.

[7] A.M. Geourjon, "Evaluation de l'expérience du Sénégal en matière d'ajustement structurel: la politique commerciale et industrielle," Report prepared for Elliot Berg Associates, January 1990.

20 percent. According to Ministry of Finance estimates, duty exemptions amounted to CFAF 108 billion in 1983/1984, or about one and a half times the amount of customs revenue actually collected.[8]

Moreover, the trend in the late 1970s and early 1980s was toward increased protection combined with growing numbers of exemptions. This is indicated by a marked decline in the rate of recovery of customs charges on imports — that is, actual amounts collected compared to collectible amounts if taxed at legal rates. This "yield ratio" (the divergence between legal tariffs and sums collected) fell from 22 percent in 1979-1981 to 16 percent in 1983-1985.[9]

The privileges granted via *conventions spéciales* have been especially costly, in terms of sacrificed revenues and in slowing industrial growth by creating a plethora of high-cost input in such strategic lines as cement and sugar. The *conventions spéciales* are individually negotiated grants of special privilege or incentive packages that go beyond those available under the normal Investment Code. After independence, the GOS began making use of this instrument to induce potential investors to undertake major projects. In Senegal, as elsewhere, governments keen to promote "strategic" industrial investments (large, innovative projects with potential linkage benefits) were tempted to make generous concessions without close analysis of the costs to the Treasury and the country's consumers. Some 15 of these enterprises are still operating, their *conventions spéciales* still in effect. (See Table 4.1 for a list of current *conventions* and their expiration dates.)

Labor Market Inflexibility

The second key element in the diagnosis of the industrial sector's ills is the emphasis on labor market inflexibility. Certain labor market characteristics encourage industrial growth: low wages, a literate labor force with reasonable training opportunities, a structure of labor-management relations that is relatively nonpolitical and nonconfrontational, and a legal framework that does not prevent employers from adjusting (at reasonable cost) their labor force to fluctuations in business. Almost none of these factors was present in Senegal. Money wages were high compared to other countries and compared to those in the informal sector (artisans and petty traders); the use of incentive pay was uncommon; productivity was low; worker literacy was low and training opportunities few; trade unions, weak on the shop floor, were politically influential; and a strict labor code made it difficult and costly for employers to lay off employees. In short, Senegal's industry was a high-labor-cost sector, a fact that was not offset, but rather compounded, by the high cost of industrial electricity, fuel, telecommunications, land transport, and port charges. There has been a modest fall in real wages during recent years (money wages have lagged increases in the cost of living). But, as noted earlier, this tendency has not been strong enough to convert Senegalese industry from a high-wage to a low-wage sector — and it has had no impact on the

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[8] Ibid.

[9] Ibid.

TABLE 4.1

INDUSTRIAL FIRMS WITH *CONVENTIONS SPÉCIALES* (END 1987)

Enterprise	Industry	Expiration
1. Trefileries Dakaroises	rod,wire	1989
2. SAR	petrol. refining	1991
3. SODEFITEX	cotton ginning	1991
4. SIPOA	?	1992
5. ISLIMA	textiles (?)	1992
6. SIPS	educa. paper prods.	1994
7. SNTI	tomato paste	1992
8. PAD	port of Dakar	1995
9. SOCOCIM	cement	1999
10. CCSS	sugar	2000
11. ICOTAF	textiles	2000
12. SONACOS-SEIB	groundnut oil ref.	2000
13. DAKAR-MARINE	ship repair, engrng.	2000
14. ICS	phosphate mining, fert., and acid	2001
15. CSPT	phosphate mining	1987

Note: Five additional *conventions* remained in existence for industrial firms that were either in bankruptcy, had ceased operations, or no longer had a juridical existence: COPETAO, SENREX, SOFRIGAL, SAFCOP, AND SEIB (the latter had been absorbed by SONACOS, the giant government oil-milling company).

factors that underlie productivity.[10]

III. PRESCRIPTION: CONTENT AND PROCESS

As the movement toward structural adjustment gained momentum in the early 1980s, there was nothing particularly subtle or unusual about the direction of change felt necessary for Senegal, Sub-Saharan Africa, or indeed for many other countries around the world. The direction of change that was advocated included the disengaging of the GOS from the ownership and management of productive enterprises; allowing market forces, operating through the decentralized decision making of private actors, a much larger role in the making of investment decisions; acknowledging the stimulating and disciplining role of competition and using it to further the interests of consumers; and expanding of their horizons by producers and their governments — accepting competition from abroad and looking abroad for new opportunities to supplement what were often limited domestic markets.

"Liberalization" is the word generally used to describe the bundle of policies we have just described. The main instruments for setting it in motion are summarized in the words "disengagement" (of the state) and "deprotection." By the late 1970s and early 1980s, this economic philosophy was already influential around the world, even within self-proclaimed socialist governments, such as in Senegal. The liberal philosophy had also gained new strength within the councils of the World Bank.

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[10] One important export industry that experienced a sharp decline in recent years is tuna processing (freezing and canning). Started in the early 1960s, the industry grew to 10-11 firms, but by 1989 had declined to only two. The industry was plagued by many problems (for example, the rise of factory fishing vessels which by-passed shore-based processing, supply shortages created by overfishing, supply shortages created by diversion of supplies to Cote d'Ivoire, high energy costs, high costs of unloading fishing vessels, and loss of British and German markets because of poor quality control).

But a prominent contributor to the industry's high cost structure was the high cost of labor imposed by the rigidities of the Labor Code. A Note published by the CNP in May 1989 states that the hourly productivity in Senegalese tuna factories was under half that of factories in nearby Cote d'Ivoire (it was for this reason that one prominent French firm, with factories in both countries, had recently closed its Senegal operation and transferred all operations to the Cote d'Ivoire). Two principal reasons underlay Senegal's noncompetitive labor costs in this industry: a requirement that female fish processors be allowed to do their work from a seated position instead of standing up (as in almost all other countries), and the cumulative weight of mandatory labor payments unrelated to output (a combination of limitations on seasonal employment contracts, excessive paid holidays and personal days off, high absenteeism among employees with permanent contracts, wage payment systems often not related to the weight of fish processed, and a labor force with too high an average age and too high a retirement age). While it seems obvious that Senegal's tuna processing industry (once, but no longer, among the world leaders) cannot be saved by labor reforms alone, it seems equally obvious that it cannot be saved without them.

It took over two years (from late 1978 to late 1980) for the GOS and the Bank to work out the first Structural Adjustment Loan (SAL I). That initial effort, which addressed problems in agriculture but not in industry, was aborted in early 1983. Despite the lack of any explicit industrial policy and program in SAL I, the GOS was clearly committed to disengagement and liberalization. This was reflected in the GOS policy paper submitted to the first Consultative Group meeting for Senegal, held in December 1984. A second SAL, focused almost exclusively on industry, was then under intensive preparation; it was approved in February 1986. SAL III, equally directed to industrial restructuring, followed in 1987. The preparation and adoption of a new industrial policy, plus an accompanying plan of action, was a World Bank condition for giving its financial assistance. A document stating the GOS's New Industrial Policy was issued the same month SAL II was approved (February 1986). The program itself was spelled out in detail in a 49-page Plan of Action issued in July.

Both the NIP and its PA are impressive documents. Responsibility for their drafting lay with the Ministry for Industrial Development and Small Industries (MDIA), in which an able under secretary was effectively backed up by a resident advisor from the United Nations Industrial Development Organization (UNIDO). Although World Bank staff members were actively involved in the preparatory discussions and in conceptualizing the NIP's content, it was UNIDO that played the lead role in helping the Ministry do the actual drafting (Bank/UNIDO cooperation was apparently excellent). More controversial is the extent of Bank/GOS/industry consultation that went into the framing of the NIP and the PA.

The New Industrial Policy

The general policy content of the NIP has already been stated — disengagement of the state from ownership and management of industries and the lowering of protection to stimulate firms into more competitive behavior. None of the available documentation, however, states explicitly the degree of competition to which Senegal's industry was to be exposed. The removal of all QRs and all tariffs would have been devastating in a country whose exchange rate was judged to be overvalued by 30 to 50 percent. Industrialists would have needed a tariff of that amount just to put their product prices on a level playing field with imports — in other words, with no protection beyond simple "currency protection." But, as we will see below, the NIP tariff structure gave domestic producers substantial effective protection (protection on their value added), by maintaining a reasonable differential between import charges on raw materials and equipment (industry's inputs) and those on final products.

The structure of the action plan is summarized in Table 4.2. It can be divided broadly into the deprotection actions that naturally aroused the greatest anxiety among producers; and promised improvements in the economic and support environment, most of which involved either competing fiscal considerations or institutional improvements, which are exceedingly difficult to bring about. The SAL agreements, while not entirely silent on the promised "upside" assistance measures, have devoted far greater attention to the implementation of deprotection. As local industrialists invariably complain, there has been a distinct imbalance in implementation between the downside measures that hurt industry and the upside measures from which it hoped to benefit. Indeed, on one key upside measure — reducing the high oil and electricity prices Senegalese industry has traditionally paid — the Bank finally sided with the Finance Ministry and the IMF in maintaining high prices, even after oil prices plummeted after 1984, because it agreed that Finance needed the windfall revenue more than industry needed lower energy prices.

TABLE 4.2
OVERVIEW OF THE STRUCTURAL ADJUSTMENT PROGRAM FOR INDUSTRY

Lowering, Simplifying, and Standardizing Protection

- End quantitative restrictions (QRs) over a three-year period, starting with strongest industries and giving others more time to adjust.

- Reduce and standardize tariffs, using a 40-percent rate of protection on value added for finished goods, 20-percent on raw materials and intermediate goods.

- Eliminate exonerations and special tariffs for individual industries (unless protected by *conventions spéciales*).

- Eliminate almost all *mercuriales* (notional reference values to be used for assessing tariffs); to be retained only to fight dumping.

- Study likely impact of deprotection for a large sample of companies; actual impact to be monitored by a special joint GOS/employer committee.

- Review all *conventions spéciales*; those judged to weigh heavily on the economy to be renegotiated or terminated; no new *conventions spéciales* to be permitted in the future.

- Decontrol all industrial prices except for five products produced under monopoly privileges granted by *conventions spéciales*.

- Increase competition among importers by making it easier to acquire trading licenses

Accompanying Measures (to help firms meet increased competition)

- Study ways and means of reducing energy costs (oil, electricity).

- Revise the country's Investment Code.

- Establish a restructuring finance facility.

- Strengthen the export credit and export insurance entities.

- Increase the export subsidy and simplify its administration.

- Revise two articles of the Labor Code to give employers greater freedom to lay off, to renew temporary contracts, and to hire directly instead of through the labor exchange.

- Launch a research program that might lead to new industries.

Deprotection Measures

What was not said as part of the stated objectives of the NIP was that deprotection would have as one of its long-term benefits the closing down of several inefficient firms unable to compete against the enlarged flow of imports expected as a result of tariff reduction. This purging of the economy inevitably involves closures, bankruptcies, and job losses.

The NIP also promised to end government controls over industrial prices and profit margins, counting on increased competition to perform these functions. However, there were five important consumer items — all produced by firms enjoying *conventions spéciales* — for which price control could not be ended: sugar, condensed milk, wheat flour, cooking oil, and tomato paste. In addition to the ending of price controls wherever possible, the NIP promised to introduce new rules that would make it easier for merchants to become distributors of domestic products (reducing the threat of distribution monopolies by manufacturing firms), and for people to enter the export-import business. The timing for removal of price controls was linked to the schedule for the ending of quantitative restrictions (the last of which was due to end in January 1988).

There is one additional aspect — a crucial aspect — of deprotection that deserves noting before we turn to those aspects of the NIP intended to help firms adjust to their more competitive environment. It is the problem of dumping or of offering goods at prices below full production cost or below the cost at which they are offered in their country of origin. QRs had assisted greatly in controlling this "unfair competition"; but with the ending of QRs, the whole burden would fall on the tariff system. Application of any tariff to imports of abnormally low invoice value does not confer enough protection to restore the resulting competition to "fair" levels. Indeed, "abnormally low invoice values" do not result only from dumping by exporters but for other reasons as well. To try to control this problem, many Francophone countries have long used a system of nominal import values, independent of stated invoice values, on which tariff duties are assessed. This is the system of *mercuriales* (reference prices). The NIP called for a study, to be completed by June, 1987, that would guide a revision of the *mercurial* system. However — and this is the key point — the continued use of *mercuriales*, suitably revised, was counted on as one of two major weapons against dumping. (The second weapon was the *minimum de perception*, a specific minimum duty fixed at a rate independent of the commodity's stated value or classification.)

Upside Actions to Help Firms Adjust: The Accompanying Measures

It had been recognized for years that some key cost elements in Senegal were higher even than those of neighboring Francophone countries — notably, energy (petroleum products and electricity) and labor costs. There was widespread agreement that the GOS should try to do something about these high-cost elements in the economic environment. The package of cost-reducing actions and institutional reforms which the GOS promised to study as part of the NIP's Plan of Action came to be known as the "accompanying measures." They were the only part of the restructuring program to which industry looked forward with hope rather than fear. The measures fall into three groups: (1) labor market reforms; (2) reduction of the price of nonlabor inputs ("technical inputs" they are often called in Senegal); and (3) institutional improvements, including better financing facilities.

Labor Market Reforms. The labor market issue was addressed in two conditionalities of SAL II. The Labor Code was to be changed to allow greater freedom of hiring in two respects: by changing the requirement that new hires take place only through the GOS's Labor Exchange, and by allowing more than one temporary contract to be signed. The first of these two conditions addressed the old (and often violated) requirement that all workers be hired through the GOS's hiring hall. The second was more basic. At present the Labor Code defines two main classes of employees: permanent ones, who can be laid off only by paying them high, company-financed severance allowances, and only then if the layoffs are approved by the Labor Inspector; and temporary employees, hired under contracts of defined duration (usually six months). Such contracts may be renewed only once — any longer engagement of a temporary employee automatically reclassifies him as permanent.[11]

With their jobs highly protected by the Labor Code, permanent employees often care little about their productivity, which tends to be lower than that of temporary employees, whose main ambition is to acquire permanent status. Thus employers have an interest in minimizing the number of their permanent staff and using as many temporary workers as they can. The NIP proposed a relaxation of Article 35 of the Labor Code to permit multiple renewals of temporary contracts.

The NIP contains a promise to study and encourage incentive pay schemes, although these will have to be made acceptable to the country's strong and politically influential labor unions. Even if the unions agree to accept incentive-pay schemes, the task of raising labor productivity will not be easy: Senegal's industrial labor force has an illiteracy rate of 60 percent or higher (the national rate is about 70 percent), and both public and company training programs are weak.

Reducing the Cost of Nonlabor Inputs. Efforts were to be made to reduce the high cost of nonlabor inputs. Energy cost reductions had not been passed on to industrial users following world oil price declines after 1984. The NIP promised to develop, with World Bank assistance, an energy sector plan in 1986, and to sponsor energy audits in energy-intensive firms.

Oil and electricity were not the only input costs from which employers hoped for relief. The prices of several other government-run services were also felt to be unnecessarily high, such as rail transport, Port of Dakar charges, telecommunications costs, and water. The NIP promised to study possibilities for reducing these input costs and to present an action program by March, 1987. This was not, however, made part of the SAL conditionality.

Also, the high cost of key inputs provided by local suppliers — inputs such as cement and sugar — was to be addressed through the reform of *convention spéciales* arrangements.

Institutional Improvements. It was hoped and expected that some firms threatened by increased competition would seek to develop new products and new markets and would try to reduce production

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[11] One result of these two aspects of the Labor Code is that firms with excess employment often cannot afford to reduce their staff, unless they elect to go out of business. A firm that goes bankrupt does not pay severance pay to its workers before doing so; the code forces them to be claimants on the firm's assets, just like all other creditors.

costs; such restructuring would certainly require additional financing, both long term and short term. Although the NIP says almost nothing about how such restructuring was to be financed, in late 1987 the World Bank did extend a US$ 33 million equivalent IDA credit specifically intended to support restructuring under the NIP.

A relatively minor improvement in the incentive structure for new industry was the approval, in January 1987, of a revised Investment Code. This contained a new statement of investment objectives (such as decentralization away from the Dakar region, using the findings of domestic R&D programs) and linked these to special privileges that would decrease gradually over time (to avoid sudden terminations that had given rise, in the past, to strong pressures for renewal). The employers' federation (Conseil National du Patronat or CNP) complained that the new code contains fewer investment incentives than the one it replaced, and fewer than the codes of the Côte d'Ivoire and of Morocco, two of Senegal's principal competitors.

Closely related to the revision of the Investment Code was the establishment of a *guichet unique* ("one-stop window") for processing investment formalities with the GOS. This single-stop office, attached to the powerful Ministry of Economics and Finance, is authorized to secure all government approvals needed under the Investment Code once an intending investor has submitted the needed papers to the *guichet unique*. Even more helpful may be the provision that all applications are to be automatically approved if not denied within a period of 30 days.

In 1983, the GOS had established two institutions intended to provide export financing and insurance against certain export risks. These institutions (CICES and ASACE) had been so weakly funded and staffed that they counted for nothing and were nonfunctioning. The NIP aimed to revive these institutions.

In a country with an overvalued exchange rate that, like that in all Franc zone countries, cannot be independently devalued, policy must search for indirect ways to achieve those objectives which other countries can seek directly via devaluation. An export subsidy is one instrument, and Senegal was the first country in Francophone West Africa to use it (starting in 1980). Beginning with a 10-percent subsidy on fob value, and limited to five products, the rate was increased to 15 percent in 1983; it was henceforth calculated against "local content," and was extended to 25 products (including fresh fish, fruits, and vegetables; groundnuts and cotton, the two major agricultural exports, were not eligible). The new system proved to be costly, with a high percentage of the subsidy going to the fishing industry. A new law was approved in May 1986: the subsidy remained at 15 percent but the basis was changed from "local content" to "local value added." Without the subsidy, the country's largest cloth producer (selling 95 percent of its output in Europe) would experience an annual loss; with it, the firm could earn a small profit.

As a form of long-run assistance, the GOS promised to try to present, by March 1987, a research program in three fields where it was hoped Senegal might have a comparative advantage — the fields of agroindustry, marine biology, and pharmaceuticals.

The Reform Dialogue

However this blend of "negative" (deprotection) measures and protective accompaniments worked out in practice, adoption of the trade and industrial policy reforms of the NIP was certainly risky for the Senegalese authorities. The question arises: Why did the GOS accept these very considerable political risks?

One major reason was the need for aid money and the common front presented by the donor community. The Bank, the IMF, the United States, and most smaller donors were strongly favorable to the industrial reform program. The United States directly supported the NIP through its African Economic Policy Reform Program grant (AEPRP I) of US$ 5 million in 1984. Only France, the largest and most influential donor, had reservations. French political and aid representatives were not in disagreement with the objectives and general orientation of the Bank-sponsored program. But many were opposed to a sudden or drastic reduction in protection, either for industry or for agriculture. But the French were in a delicate position. Given the importance of French nationals in industrial ownership, they could not take an aggressive anti-NIP stance without falling victim to charges that they were defending their own self-interests. This, plus the recognition that reform of the trade regime was necessary, explains the apparent lack of French resistance, formal or informal, to the Bank-led program.

The second factor behind Senegalese acceptance was the widespread Senegalese disappointment with the performance of the industrial sector. During the 1970s, the GOS had had great expectations for the development of industry and had agreed to heavy financial steps favoring the sector — high protection, exemptions, export subsidies, subsidies for public enterprises, and so forth. Disappointed by the failure of its policy, the state was more amenable to liberalization.

A final factor was socio-psychological. The Senegalese administrative class harbors resentments and hostilities toward industrial capitalists, which made it easy for them to welcome a policy change that would put the industrial class to severe tests. Senegalese civil servants inherited some of their *méprise* (scorn) for the industrialists from their French predecessors; in colonial Africa the administrative career enjoyed prestige and was a symbol of success. Private sector operators were either French or Levantine — single-minded profit seekers far from home — or, if Senegalese, parasitic merchants or very small-scale industrialists. More recently, the administrative attitude has evolved into a view that the industrial class is largely a group of rent seekers and corrupters, who enjoy a quiet and privileged life in the shadow of high tariff walls and political favoritism.

Looked at this way, the NIP represented an opportunity for the administrative class to expose the nonentrepreneurial, noncompetitive industrial class to a real test. The administrators were willing to do this because so many believed the industrialists were unworthy — a class that had made its way not by merit but by influence and corruption.

Another interpretation is more widespread in Senegal. This equates government acceptance of the NIP more with nationalism than with class attitudes. According to this view, the GOS accepted the NIP as a way to get rid of foreign industrialists who dominated the sector. Hard evidence in support of either of these interpretations is thin.

Different Views on the Reforms

We discuss the GOS in the previous paragraphs as though it is a monolith. But of course ministries and departments, and the private sector, varied in their positions on this as on other matters.

The Ministry of Finance took a favorable view of the reform, which gave it hope of an improvement in receipts, especially in customs receipts as a result of limitation of exemptions and a lowering of rates that would reduce corruption and fraud. The MDIA was originally also favorable towards the NIP since this ministry was the responsible agency and the overseer of the work. The reform is still one of its major concerns; it is the main spokesman with the World Bank on industrial policy issues.

The officials in charge of customs administration had a perspective closer to that of the IMF than to that of the Bank; they focused on revenue generation. When the main outlines of the NIP became clear, these officials had time to reflect on the possible consequences of too rapid a deprotection of industry. The opinions of the customs administration in this area are significant; it manages the tariff system (industry exemptions), watches over the application of QRs, and is responsible for controlling corruption. The customs directorate approved the principle of lowering the rates on the grounds that it should encourage a reduction in corruption. On the other hand, it emphasized from the outset that too strong and too rapid a reduction in tariffs, combined with a simultaneous elimination of QRs, would impose severe strains on local industry.

The Directorate of External Commerce in the Ministry of Commerce became burdened in the 1970s because of the complexity of import/export procedures and the proliferation of QRs. It was also exposed to strong pressures from rival economic actors. For these reasons, the Directorate welcomed the simplification of procedures and looked forward to the reduction of QRs. Its leadership, however, took the position that liberalization should not be done without reference to the behavior of other countries. On these grounds it supported the maintenance of QRs for the textile sector.

Private entrepreneurs recognized that the policy of protection followed in the 1970s was excessive, but they objected to rapid deprotection. They considered themselves victims rather than culprits. They knew the legal texts were often ignored and that benefits were given widely via tariff exemptions and in other ways. They felt that firms had been able to profit from the tariff system very unequally, with those having conventions benefitting most. Detailed sector studies would have been helpful in fitting the NIP to reality. Finally, the entrepreneurs were obsessed with the handicaps they suffered as a result of the high cost factors of production; in their view, the cost-reducing accompanying measures should have been put in place before proceeding with deprotection.

Private sector spokesmen have expressed two main grievances with the process by which the NIP was introduced. First, they believe the World Bank was so dominant a player that it could have pushed the Senegalese authorities to adopt the accompanying measures. These actions were crucial in their view, since if the private sector was to react favorably to the new incentives, it was necessary that there be compensation for the losses resulting from deprotection, in the form of easier access to capital and labor, lower input prices, and other supply-reducing changes. Yet the Bank and other donors were relatively passive on these matters.

Secondly, the private sector feels that it was not consulted in the framing or implementation of the reform. The private entrepreneurs who were the principal actors in the reform were assembled on January 18, 1986 at an information meeting organized by the MDIA with the help of UNIDO. Some comments were asked of them on that occasion but no written document was distributed at that meeting. The employers' federation felt it had not been given timely notice; the interministerial council officially adopted the NIP the following February 10. The industrial employers, who in Senegal are grouped into well-structured *syndicats*, proceeded to submit critical memoranda to the MDIA on the NIP. Their feeling of blunt exclusion from the dialogue no doubt contributed to their general hostility to the NIP and the policies it incorporated.

IV. IMPLEMENTATION

The deprotection reform has claimed the most attention and controversy, so we give it priority here. To help in following the issues, it is useful to review at the outset some basics about the tariff system. Since there appear to have been gaps between between formal implementation and actual practice, an effort is made to discern possible backsliding via internal adjustments. The labor market and institutional reforms are treated in less detail.

Deprotection

Since 1980, the taxation of imports has consisted of three elements:

- A customs duty (*droit de douane*) at a uniform rate;
- A fiscal tax (*droit fiscal* or DF) at four different rates: a reduced fiscal tax (DFR), an ordinary fiscal tax (DFO), an increased fiscal tax (DFM), and a special fiscal tax (DFS); and
- a VAT (value added tax) at variable rates.

These rates apply to the cif value of imported products or to their *valeur mercuriale*. The customs duty and the fiscal tax are true "port charges" since they apply only to imported goods. The VAT is a tax on domestic consumption; it falls on both imports and on locally made products. For that reason, it does not affect the level of tariff protection. The use of separate customs and fiscal charges is a legal fiction found in several West African countries, which agreed to maintain a single custom rate for all imports but allowed individual countries to supplement them with fiscal charges. It is the latter which provide the differential between the degree of protection on industrial inputs and outputs, a matter of key importance for industry.

The customs duties were reduced on schedule. The customs administration agreed to a reduction in two steps: in July 1986 and in July 1988. It would have preferred, however, not to have gone beyond the 1986 reform; the second reduction was made under pressure from the World Bank. As noted below, the protection differential for final goods, which had been 40 percent in 1985, was to be reduced to 10 percent after July 1988. The customs administration, and many others, believed that this went too far — that a differential of 20 percent should apply to all sectors. This implied that semi-finished products would continue to be taxed at a reduced rate rather than at the ordinary rate.

In any event, the reform went forward as agreed. The reduced and rationalized tariff structure is shown in Table 4.3.

The new tariff (Law #86-36) also provided for a progressive revision of the classification of products to apply fiscal charges according to a product's degree of finish. Seven categories of products were defined:

- Social goods and related: pharmaceutical products, books, seeds, fertilizer;
- Strategic goods (products benefitting from state subsidies because of their impact on the national economy): oil, cereals, and petroleum products;
- Capital goods and raw materials;
- Semi-finished products;
- Tariff revenue producing products (*pourvoyeurs de recettes*): consumer goods not produced locally;
- Other finished products: consumer goods made locally; and
- Luxury products.

Tariff protection accorded to different industrial activities depends on the gap between the taxes applied to finished goods and those applied to inputs. This "protection differential" was 40 percentage points in 1985 ([DD + DFM] - [DD + DFR]). Since the objective of the reform tariff was to lower effective protection to limit the distortions they entailed, the differential was reduced to 25 percent on July 1, 1986. As Table 4.3 shows, Law #86-36 provided that activities using semi-finished inputs (DD + DFO) would enjoy a protection differential of only 10 percent after July 1, 1988.

Law #86-36 was modified by Law #87-24 of August 18, 1987, to correct inconsistencies noticed in certain lines of production (protection of inputs at rates higher than those for the finished product).

The customs code of 1974 was replaced in 1987. The new code improved the procedures for fine tuning tariff classifications — something favored by local industry. It is also less protectionist than the former code; the lower customs duty was intended to reduce corruption. Use of reference prices was to be substantially eliminated to make the tariff system more transparent; they were to be used in cases of underinvoicing and dumping (see below).

It was expected that the customs administration would conduct a study on the *codes de précision* with a view to their elimination. That study was never done and the *tarifs de précision* are still in use. It is the only measure of tariff reform that has not been formally implemented: the *codes de précision*

TABLE 4.3

COMPARISON OF TARIFF RATES
(percent)

(Before the reform and after the two stages provided by the law [July 1986 and July 1988] and the reprotection of August 1989.)

	1979	1985	7/1/86	7/1/88	8/1/89
Droit de douane (DD)	5	15	15	10	15
Droit fiscal reduit (DFR)	10	10	10	10	10
Droit fiscal ordinaire (DFO)	35	40	30	20	30
Droit fiscal majore (DFM)	45	50	35	30	35
Droit fiscal special (DFS)	70	75	65	50	65

have been retained as a possible means of maintaining or increasing effective protection.

The timetable for eliminating QRs was respected; some decisions were even taken before their target date. Only the final stage, announced for January 1988, was delayed — by one month — to February 1988. The program provided that the first step would be liberalization of imports not competitive with local industry. The ensuing stages, those which were going to hurt local industry, began by liberalization of the most competitive sectors. The most vulnerable (textiles, footwear, and school materials) were liberalized last. QRs were eliminated for all industrial products except (and it is a big exception) for the products whose firms enjoy *conventions* (notably, sugar and cement). Nothing can be done about these remaining QRs until these *conventions* can be renegotiated.

Few governments are able to resist pressures to protect their domestic industry in the face of threats from external competition. We should, therefore, expect to find that measures of self-defense were introduced in Senegal, overtly or covertly. It is not only a priori that we should expect this; already, in August 1988, right after the second round of tariff reductions, Senegalese authorities let it be known in Washington that they were thinking of reintroducing prior approvals (*autorisations préalables*) to protect the textile industry. Also, government granted a reduction in the value added tax on textiles from 20 percent to 7 percent in 1988.

The second reduction in duties (that of July 1988) was supposed to lead to a reduction in the protection differential to 10 percent for firms using imported semi-finished inputs. The Senegalese were generally unhappy with this provision. They wanted at least a 20-percent differential for all finished goods; the 1985 rate after all had been 40 percent. But the changes in the customs duty (DD) and the fiscal tax were already on the books.

There were at least two ways to reduce duties on imports to increase the protection differential — in other words, increase the rate of effective protection. One way was to reallocate commodities among the six-digit basic classifications into which final goods were grouped, moving them to lower duty groups — for example, from a group paying the ordinary fiscal tax to one paying reduced fiscal taxes, or even to one paying no fiscal tax at all ("suspended"). The second way was by manipulation of the *codes de precision*. The six-digit customs classification in Senegal was enlarged by two supplementary digits, which allowed product reclassification to give greater protection to local producers. These *codes de précision* permitted a differentiation in the taxation of products having the same basic tariff classification, if the addition of a *code de précision* could be justified. The latter have their origin, in part, in the desire to encourage certain activities by taxing them at lower rates and, in part, in the desire to create more appropriate product classifications than are provided by general tariff categories. Thus, a product of mixed usage, capable of being used as a final consumer good or as an intermediate good, would appear in the annex under the DFM heading for its first usage and in the annex under the DFR heading for its second usage. It is even possible that it could qualify for the "DF suspended" heading if the user was in a privileged industry such as, for example, the dairy industry.

Thanks to these devices, the customs administration has maintained a differential of at least 20 points for the majority of activities. This is not what had originally been intended by Law #86-36.

Similarly, some reference prices (*mercuriales*) have been set at levels designed to protect local firms. The "minimum collection" principle has been especially significant here. The *mercuriales* are applied to almost all products made locally; they are intended to weaken the impact of QR removal and the lowering of average levels of duty. The minimum collection device consists of fixing a minimum reference tax on imports. In principle, it is aimed at dumping and imports of goods for which ordinary reference pricing is not an adequate barrier, or goods which may be subject to reclassification fraud at customs. It can be and has been used as a protective measure. If the minimum tax is set very high, it can become prohibitive — the legal equivalent of a QR. Thus in July 1988 four products competing with those of CAFAL (switches, cigarette lighters, matches, and cigarettes) were subjected to a very high minimum collection charge intended to discourage imports. In this case, the minimum collection measure replaced the QRs that applied to these products until December 1987.

All of these "adjustments" represent nonimplementation or retreats from the original reform. We could not determine how widespread or significant they were, but it would not be surprising if further research revealed a widespread reintroduction of protection by these devices.

In any event, the GOS made a full-scale retreat from trade policy reform and the NIP in 1989. In August of that year, the GOS took explicit steps to reintroduce higher protection via tariff charges. It proposed an increase in formal tariff structure — a rise in customs duties of five percentage points, from 10 percent to 15 percent, the rate that applied before the second tariff reduction of July 1988. The GOS took this step knowing full well that it would be resisted by the World Bank. In what seemed to be a take-it-or-leave-it letter to the Bank, the GOS also told the Bank it had imposed minimum taxes on certain imports and extended the *mercuriales* as a necessary response to the growth of fraud (underinvoicing and dumping). Eighty-five products for which *mercurialisation* was technically difficult were subjected to the minimum collection measure. With the raising of customs charges, the reintroduction of *valeurs mercuriales* as the basis of determining input values, and the broad use of minimum values set at prohibitive levels, the tariff structure became probably as protectionist as it was in 1985, and may even be more distorted than it was before the reform.

The Bank and the Fund had to respond to these proposals, which had been put forward by the GOS almost as a fait accompli in June 1989, without prior discussion. The Fund favored the revenue-raising aspect. But the Bank was naturally worried about giving in to inevitable employer pressures lest it threaten the whole liberalization program. Bank skepticism about the need for any "reprotection" was based partly on the failure of CNP to respond to an earlier Bank invitation that it propose some specific measures that the parties might discuss. As matters turned out, both the Bank and the Fund agreed to accept the amount of reprotection the GOS had proposed.

Bank staff tried to put the best face possible on this reversal of reform. They said the changes were consistent with the main orientation of the trade reform and that the GOS has agreed that various duty exemptions are to be phased out in 1991 for the vulnerable sectors (textiles, batteries, and matches). But this is far from certain.

Conventions Spéciales

The NIP-associated World Bank conditionality took a soft and gradual approach to the problem of special agreements. The required actions involved studies and audits. SAL II specified that a study should be done evaluating the costs and benefits of each of the industrial *conventions*; the GOS would then consider the advisability of revisions.

A major legal and political question was whether the GOS would have the authority to cancel or change such agreements. It could be argued that they were sacred contracts that must be allowed to run their full terms. But a different view prevailed, namely, that *conventions* are two-way agreements that impose obligations and standards on an enterprise as well as giving it privileges: if the GOS judged that a firm had not lived up to its obligations, it would be entitled to reopen a *convention* for renegotiation or, in extreme cases, to cancel it.

By mid-1987, a preliminary review of the 15 industrial agreements still in effect had been conducted. The general conclusion was that four of the 15 firms were so clearly a net burden on the economy, and had so clearly failed to live up to their promises, that steps should be taken to revise the agreements. The four firms so targeted were CSS (sugar), SOCOCIM (cement), SAR (oil refining), and ICOTAF (textiles). Since these judgments were preliminary only, and the GOS wanted stronger evidence before formally moving to renegotiate, it was considering a proposal to conduct some six in-depth studies before taking any further action. At mid-1989, no decisions had yet been taken on any of these recommended studies and the GOS had not yet moved to reopen any *convention* for renegotiation.

Labor Market Reforms

Only one of the labor market conditionalities in SAL II and III has been complied with — the removal of the requirement that employers hire only through the government's Labor Exchange. Since this regulation was not effective, its removal was not much of a move toward more flexible labor markets.

The second and more fundamental reform, the NIP's proposal that the Labor Code be changed to allow multiple renewals of temporary contracts, was less successfully implemented. The trade unions opposed this change, and when it was submitted to the National Assembly for approval in June 1987 the unions lobbied strongly against the change, and it was defeated. Thus, on the key issue of moving towards greater flexibility in layoffs, the NIP was defeated. The best that could be obtained was a lengthening of the maximum period during which workers could be employed on temporary contracts from six months to one year.

SAL IV attacks labor market issues on a broader front than the earlier SALs; they are indeed centerpieces of the new program. The following changes were approved by the National Assembly in October 1989:

- In September 1989, the GOS issued a decree allowing firms unlimited use of temporary contract labor, in the form of activity increase (*surcroit d'activité*);

- In the revised Investment Code, eligible enterprises can hire workers on temporary contracts for up to five years;

- Small and medium-scale enterprises (investment of US$ 15,000 to 650,000), which comprise 40 percent of the formal manufacturing sector, will from 1990 be allowed to sack workers without prior authorization by the GOS; and

- All enterprises in the Industrial Free Zone of Dakar will enjoy these new rights.

The GOS has also agreed to review the collective bargaining system and to freeze minimum wages for three years. Hardy measures also were agreed to for public employees: a reduction of over 6,000 civil servants; a reduction in the projected wage bill from CFAF 132 to 127 billion in 1988/89; and a salary freeze until June 1992, except for incentive bonuses.

Whether or not the GOS and the unions can hold to these reforms is an open question. Three and a half years into the NIP there was little evidence of movement to deal with these problems. It seems clear that a government strongly linked to the trade unions has been extremely reluctant to exert pressure on the unions to permit changes that would make it easier for employers to raise productivity and to adjust their labor force more flexibly. In late 1989, the GOS seemed to accept the conclusion that labor problems might affect the country's industrial future. But whether the promised political, legal, and contractual reforms can be achieved is still uncertain.

What is certain is that it will not be easy to change the present negative characteristics of Senegal's industrial labor market and labor relations into the higher-productivity/lower-labor-cost structure the sector will need to survive when exposed to competition. Both trade union and government officials have traditionally been suspicious of employer motivations and feel that employers want more flexibility not because it is needed to strengthen the sector but only to serve their own interests. Terrell and Svejnar (in a recent study of the industrial labor market) see no way out of stagnant employment levels and falling real wages unless the GOS, unions, and employers can arrive at a "social compact" that will encourage "greater effort, motivation, and labor productivity." Neither the New Industrial Policy nor the wider structural adjustment program until 1990 sought to make a major issue of the unsatisfactory state of the country's labor relations. Any such attempt is necessarily confrontational, challenging long-standing institutional arrangements, deep-seated attitudes, vested personal interests, and one important part of the GOS's power base. The Bank has chosen to make such an attempt in SAL IV.

Reducing the Cost of Nonlabor Inputs

Energy costs have been abnormally high because the GOS did not pass on to industry the reductions in energy costs following the sharp fall in world petroleum prices in the years after 1984. A government severely strapped for revenue did not want to give away these savings. Some reductions in electricity charges (varying from 8-18 percent) were made in July 1986; but these were partly offset by increases in the fixed demand charge, so that industry had not, in fact, been given any substantial relief. In late 1987, electricity costs in Senegal were reported to be about 60-65 percent higher than in nearby Côte d'Ivoire. Only the phosphate sector had succeeded in obtaining some relief. SAL IV takes up these issues again. The energy sector plan envisaged in 1986 was not completed, although by the end of 1988 energy audits were done in nine energy-intensive firms.

Liberalizing Prices and the Channels of Distribution

Price control in the competitive sectors was abolished by a decree on June 30, 1987, the procedures governed by import-export cards were simplified by a decree on May 15, 1987, and a law guaranteeing free competition was enacted. Price control has been maintained, however, for strategic products which are governed by conventions.

Investment Code and "One-Stop Window"

The Investment Code of 1981 was to be changed. One of its deficiencies was that it did not provide any transition period for enterprises, which were exposed to normal taxation as soon as their exemption period was over. Conditions for approval were highly flexible and, in addition, the "Grand Code" permitted firms with an investment above 2 billion to claim the very advantageous terms of the *conventions spéciales*. The promised new Investment Code was adopted in August 1987. In general, the new code was tighter fiscally. It allowed fewer incentives to investors. Special conventions were no longer to be granted. Benefits were denied for modernization investments. The code was adopted within the SAL/NIP deadline, but it is a relatively unsatisfactory compromise between those who favored putting all incentives under a single legal regime and those who believed in the stimulative effects of special benefits. Adoption of the new Investment Code was accompanied (one year later) by the establishment of the *guichet unique* to facilitate processing of investment proposals.

New Financing Facilities

As noted earlier, the World Bank did make financing available for industrial restructuring. But it came into being late; the new fund did not start accepting applications until the end of 1988, two and a half years after the NIP's start and well after all deprotection measures had been adopted. Moreover, it was not designed to truly facilitate access to restructuring finance.

The credit was set up as an APEX fund under control of the Central Bank, which would make funds available through commercial banks that agreed to participate after working out specific loans with individual firms. Few if any of these banks (most of which were in the midst of a serious, prolonged financial crisis themselves) had been accustomed to making medium- or longer-term loans to industry; their specialty had always been short-term trade financing. The Bank recognized the risk that "the banking system may be reluctant to increase its financial exposure to the industrial sector, perceived as more risky than traditional sectors such as commerce." This fear proved correct: the APEX facility started functioning in October 1988, but not a single loan had yet been concluded by mid-July 1989. Several firms had approached commercial banks for possible loans but only two or three of the banks were sufficiently liquid to even consider participating. Most requests were not for equipment financing but to help the firms consolidate outstanding credits. Although this had not been foreseen when the fund was established, IDA agreed to let the funds be used for this purpose when part of a larger restructuring package, but the Central Bank had not yet reached its own decision on this point by mid-July. Thus, of four approval-requests submitted by banks, two had been accepted by IDA and were awaiting the Central Bank policy decision on the credit-financing issue.

In addition to the slow start in getting this restructuring facility off the ground, there was considerable criticism that the financial standards set by the fund (and presumably required by IDA) were unrealistically strict and sophisticated and, if not relaxed, would effectively exclude from help the great majority of firms likely to need it.

Export Subsidies and Duty Drawbacks

This system was modified in August 1986. The subsidy (25 percent) is now fixed on domestic value added and no longer on the fob value of exports. This change makes the procedure more rational from an economic point of view but it complicates administration and results in long delays in payment. This change has also been poorly received by exporters, whose value added represents a low percentage of their export value. Another source of complaint is that this subsidy applies only to exports outside the CEAO.

But the most important deficiency was in the administration of these schemes. Delays and uncertainties about payment of subsidies and reimbursement of import duties turned these presumed "automatic" benefits into exceptional events. Exporters did not take them into account. Moreover, with the rise in import duties since August 1989, the loss of duty drawbacks has become more onerous, so new funding would be required in any overhaul of the system. In any event, all parties agree that these schemes have provided little or no export incentives.

Summary

In summary, if, like Senegal's industrialists, we classify the different elements of the NIP into negative and positive measures, we see that, with the exception of the ending of the *codes de précision*, all the negative measures have been put into effect. But it is different for the various positive measures. Some have been delayed (APEX credit) or have been poorly implemented: the operation of the APEX facility is a case in point. The procedure for calculating the export subsidy has proved too complicated and not particularly stimulative of exports. A new Investment Code is now under discussion. As for the various improvements in the business environment, the principal "accompanying measures" that were to help industries achieve their restructuring — modification of the Labor Code and lowering of the costs of nonlabor inputs — have not been adopted.

V. IMPACT AND REACTIONS

The heart of the NIP was deprotection — reform of the tariff system and the ending of all quantitative restrictions on imports. The intent was not to eliminate all protection; it was rather to eliminate overprotection, to put the full burden of protection on tariffs, and to reform the latter so that they were fairer among different industries and were based on a sounder conceptual basis (in other words, the protection of value added, not of final selling prices — as the starting point of tariff policy). The ending of QRs was phased over a three-year period, with those industries judged best able to stand more competition exposed to it first, and those least able given three years in which to restructure themselves to withstand the increased competition they knew would come.

To assess likely impacts of the tariff reform, a study was commissioned. It was done by the Paris office of the Boston Consulting Group (BCG), an international firm. The work began in October 1986 and was finished three months later. It collected and analyzed data from some 60 large-scale firms, roughly half the number of such firms in the country. The study made estimates of the likely volume of unemployment resulting from layoffs because of efficiency measures taken as firms restructured themselves, and closure of firms unable to survive in the new, less-protected environment. Its main findings are summarized in the following statements:

- The direct increase in unemployment in firms that are unlikely to survive should be relatively light (about 700 jobs or less).
- Job-loss resulting from layoffs in firms needing to decrease employment to survive should be between 350-460.
- Fixed investments on the order of CFAF 2.3-3.3 billion (US$ 7.7-11 million) will be needed for restructuring.
- If attention is broadened beyond the likely direct impact of the NIP to include productivity-raising measures needed to make Senegalese industry competitive, then the number of jobs at risk rises to 3,500-5,000 and the need for new fixed investment rises to CFAF 7-11 billion (US$ 23.3-36.7). The industries most in need of efforts to raise productivity are the agroindustries and textiles.

The BCG report went on to identify several "accompanying measures," which it said were needed if firms were to adapt successfully to the new competitive environment. The BCG list of accompanying measures differs substantially from those that had been previously announced as part of the NIP's Plan of Action (cf. Table 4.2). The BCG warned that if its accompanying measures — all but one of which required action by the GOS — were not taken, then the impact of the NIP, "particularly on employment," might be substantially more serious. The accompanying measures listed by BCG were these:

- Greater consistency and predictability in administering customs regulations;
- Protection against dumping;
- Protection against smuggling;
- Input price reductions: downstream industries should not have to support the high domestic prices of suppliers operating under conventions spéciales; major users of key inputs like energy and water should be allowed to buy them at a price equal to their long-

term economic cost (in other words, without the supercosts that now yield the Treasury a good profit);

- Productivity increases, which will require some reductions in staff: changes in social legislation should be made to make this possible;

- Fiscal regulations should not discourage mergers of firms; firms in certain sectors work at such low operating rates that they cannot survive without merging; and

- Firms that cannot become competitive in certain of their products should be allowed to import items needed to fill out their product lines.

Of the items listed above, BCG cited customs rationalization and labor-force flexibility as the two most important.

In some quarters, it appears, much more positive effects were anticipated. A document was submitted to the Consultative Group meeting in February 1987, entitled "Les projections du programme d'ajustement, 1985-1992," which projected a rate of growth in manufacturing output of 5 percent a year and similar rates for exports and investment growth. These projections assumed a complete reversal of past trends. How such incredibly optimistic projections could have been derived is not clear, especially given the kinds of lags that are present even in the most successful trade policy reform programs.

Senegal's industrialists reacted with hostility to the NIP. They had not been unanimously and stubbornly opposed to the NIP from its start. Many had recognized the need for greater competition, and there had long been considerable resentment of the privileged position held by firms protected by *conventions spéciales*, which insulated them almost entirely from the effects of liberalization. What disturbed the employers was their absence from the table when the NIP was designed, the speed with which deprotection was put into effect, the extent to which the policy was carried, and the severe imbalance that developed between the implementation of the deprotection measures and the (loosely) promised set of accompanying measures intended to help the restructuring process by lowering manufacturing costs and providing financing for new investments. This asymmetry in the restructuring program, and in the amount of government and donor attention given to its two sides, pressed hard on many firms but especially so on those hit by the increased volume of unfair competition that arose not long after the NIP began to be implemented.

By all accounts, deprotection brought in its wake a huge increase in fraud, mainly in the forms of misinvoicing and dumping. The ending of QRs meant that exporters in other countries could try to dispose of surplus goods in Senegal with only a duty to worry about. Importers no longer had to worry about getting quotas. Furthermore, liberalization included a reform of the licensing system so that it became much easier and cheaper for people to become importers or exporters.

In December 1985, there were 2,669 importer/exporter *cartes* (cards) in existence. Trade liberalization started the next month. During the next three and a half years there were 6,722 new *cartes* issued, giving a total of 9,391 valid *cartes* as of mid-June 1989. This was an increase of over two and one-half times in the number of registered importers. Not all of these newcomers were active, of course. But the importer registration figures are telling and lend credence to the complaints of the CNP and individual manufacturers that there has been a significant increase in imported goods, and in dumping, as a result of trade liberalization.

The industries most affected by deprotection have been textiles (the second-largest industry in the country), matches, batteries, and chemicals. In June 1988, CNP sent a memorandum to the Minister of Industrial Development and Artisanry proposing an emergency plan to save the country's textile industry. At the same time, the CNP called public attention to the serious difficulties that deprotection was creating in the mechanical industries, milk products, animal feeds, cereal and biscuit manufacture, mineral water, clothing, hosiery, paper cartons, lubricants, paints and varnishes, and plastics (especially PVC products).

The hard-hit textile industry tried to slow down deprotection by asking the GOS, in early 1988, to suspend liberalization for at least two years (by the time deprotection was to affect textiles, the industry had two years' advance notice). In its Note, the Fédération des Industries Textiles du Sénégal (FITES) complained, with much reason, that Senegalese industry was being asked to accept a degree of deprotection that even the developed countries do not follow (witness the import controls agreed to in the multifiber agreement). If the local industry was to have any chance of survival, here is what FITES thought the GOS should do:

- Put quotas on imports from Southeast Asia;
- Prohibit imports of used clothing (*friperie*), a source of problems for the industry for many years. In mid-1989 there was a duty on used clothing but none on new clothing — so a high proportion of *friperie* was entering Senegal, in container-load quantities, as "new clothes";
- Provide relief on "technical" production costs — service inputs purchased from government suppliers. By far the most important such cost was electricity: in spinning and weaving, electricity was said to account for 40 percent of production costs — second only to raw materials and considerably more than the cost of labor. The cost of electricity in Senegal was said to be twice its cost in the Côte d'Ivoire and Cameroon, four times its cost in France, and five times its cost in China;
- Reestablish economic order at the frontier. By this, FITES meant: widen the spread between the duties on inputs and outputs; strengthen the fight against fraud (it quoted an estimate from *Jeune Afrique* for March, 1987, that "contraband accounts for 60 percent of Senegal's textile market"); reestablish the system of *mercuriales*, the main instrument against underinvoicing and dumping; "revise" the export subsidy (export sales account for over one-third of textile-industry sales);
- Activate the promised restructuring fund (see below);
- Suspend all taxes on the industry during the first year of liberalization; and
- Reform the Labor Code.

In November 1988, one of CNP's two constituent employer federations, the Societe du Patronat Industrielle du Senegal (SPIDS) issued a Note expressing concern about the downward trend of industrial employment being caused by liberalization. Among member firms of SPIDS, there had been an average loss of employment, over the three years 1986-1988, of 6 percent per year. Over the next two to four years a further loss of about 15 percent was projected. If these projections proved accurate, they would mean a loss of 10,000 of industry's total 1985 employment of 35,000, a 30-percent decline. Behind these figures is much pain and anguish for those directly affected. But it results from a purging from the economy of some inefficient, low-value-added industries that cost consumers and the treasury dearly. And these figures do not include firms still protected by *conventions spéciales*.

One could of course accuse employer representatives of trying to scare the GOS and the World Bank into relaxing the pace and extent of deprotection. But in mid-1989 there could be little doubt that structural adjustment was contributing to a significant shrinkage in employment in the formal, or large-scale, industrial sector, and in the number of firms still operating. The office in the MDIA responsible for helping industries in trouble reported in July that 23 firms had gone out of business since 1986. (It proved impossible to get a list, however. A Chamber of Commerce list of closed firms contained the names of 16 that had closed since January 1, 1986, resulting in the loss of 3,141 permanent jobs — temporary jobs lost were not reported.)

Many of the closed firms, such as the frequently cited case of Bata Shoes — were closed for reasons having little to do with the NIP. In any case, the general mood of industrial leaders was decidedly hesitant and pessimistic: outside the firms protected by *conventions spéciales*, few if any firms were profitable, few were making any plans for new investments, no new foreign investment was occurring, and some major bankruptcies were feared. Figures available from the *guichet unique* showed not a single application for a factory-scale industrial project since the office opened in March 1987.

VI. CONCLUSIONS

No one who has looked at Senegal's industrial sector within the last two years has come away confident and optimistic about its health and its future. The sector's malaise is obvious and widespread; an acceleration of bankruptcies and closures, with escalating unemployment, is a real fear. The volume of new investment, either by existing or by new firms, is extremely low. These negative impressions doubtless suffer from the exaggeration of all short-term perspectives; but they are real and they complicate the problem of passing judgment on the NIP and its implementation. Senegalese industry might well be in its present difficult condition even if there had been no effort to restructure it. Given this caution, what can we say about the apparent success or failure of the industrial restructuring experience of the 1980s?

A Summary Scorecard

Table 4.4 provides a summary score-card of what was done, and what was not done, to implement the NIP. It ties in closely with Table 4.2, where the main objectives of the NIP were outlined.

TABLE 4.4

IMPLEMENTATION PERFORMANCE OF THE NIP

Things Done	Things Not Done
Quantitative restrictions abolished.	Cost of technical factors reduced.
Tariff structure reviewed & revised.	Increased flexibility in labor market.
Many industrial prices decontrolled; likewise distribution channels.	Strengthening of export credit & insurance schemes and agencies.
Investment code revised.	Export subsidies increased & administration simplified.
One-stop investment office opened.	Launching research program to identify new investment possibilities.
Future *conventions spéciales* prohibited.	Establish joint govt/employer comm. to monitor NIP progress.
Study of existing *conventions* done.	Renegotiation of *conventions spéciales*.
Access to import licenses made much easier (= more competition).	Timely establishment of an appropriate restructuring investment fund.

A few comments are needed to put this compliance scorecard in better perspective.

- Although the tariff structure was given a thorough overhaul and average rates were reduced and initially made more internally consistent, the process of making exceptions began again almost before the ink was dry. Two instruments initially intended to be abolished, or nearly so (the *valeurs mercuriales* and the *codes de précision*), regained considerable use as instruments to fight against underinvoicing and maintain the target "protection differential" of 20 points between inputs and outputs. In addition, the GOS's restoration of the basic tariff level to 15 percent in mid-1989 undid a significant part of the initial reduction.

  The net result of these revisions and counterrevisions appears to have left the tariff level and structure not very different from what they were before the NIP was introduced. "Plus ça change, plus c'est la même chose." It is difficult to say, however, whether the unforeseen steps backwards (reprotection) reflected government responses to pressures from private interests or to genuine concerns about a deteriorating industrial scene and the need to do something about unfair import practices. In any event, if it is true that the customs regime today is not very different from what it was before the NIP, then the trade liberalization episode is largely over.

- There is another difficulty also: one is sometimes told that there was so much smuggling into the country from Mauritania and, especially, from Gambia that the formal protection measures did not really protect — implying that the reduction of formal protection did not significantly increase the competition to which Senegalese industry was exposed, since it had long had to compete against smuggled goods. This is a difficult argument to accept, although it is doubtless true of certain goods at certain times.

- The GOS did not promise to reduce the costs of technical factors: it promised only to study the possibility of doing so. Formal studies do not appear to have been conducted until early 1989, when reductions in fuel and electricity charges were agreed upon by the Bank, the Fund, and the GOS.

- Regarding the amount of assistance for exports, a change in the basis on which export subsidies are paid (from fob value to value added) did little to strengthen incentives. Also, administration of the system became more, not less, complicated. And nothing was done to strengthen the ineffectual export credit and insurance agencies. Thus the NIP brought little or no help for industrial exports — an area identified by the World Bank, in its four-volume 1979 country economic report, as the key to sector growth (with exports to the EEC, under the Lome convention, more promising than those to the much poorer, smaller, and more restricted regional markets of West Africa). Export promotion comes in for renewed attention in SAL IV.

- The Bank did move promptly to help set up a financing facility for industrial restructuring, but it took much longer than expected and — what seems a fatal flaw — it was linked, administratively and conceptually, to the private banking system, which was in complete disarray. One cannot be sure that the earlier availability of more easily accessed funds would have been used by industry, but that would have seemed a better strategy for encouraging restructuring investments.

Diagnosis, Design, and Compliance

Few who have looked at Senegal's industrial scene take issue with the broad objectives of the NIP — opening the sector to greater competition, making the sector more flexible and efficient so that it could stand up to competition, and encouraging more exports. By far the strongest and most persistent criticism has come from French observers, who feel uniformly that the NIP tried to go too far, too fast, and that it was unbalanced in the emphasis given to the negative reforms of deprotection in contrast to the weak attention given to the positive cost-reducing areas represented by the accompanying measures. Neither SAL II nor SAL III mentions any of the accompanying measures except the effort to increase labor market flexibility. This asymmetry is part of what these observers mean when they characterize the program as "brutal."

The brutality criticism implies that the diagnosis and program were basically sound but should have been spread over a longer period, should not have exposed the sector to quite as much competition, and should have required the introduction of the main accompanying measures as a precondition for reducing protection. There are two difficulties with this view. One is the question of how the donors should extend assistance during whatever longer adjustment period might have been chosen (say five, seven, or ten years): one can argue that such a timetable would have permitted a more logical phasing of adjustment activities (studies, cost-reduction measures, and establishment of financing facilities in the early years, with deprotection measures postponed until the later years). The NIP and its PA did not attempt such sequencing: all activities were on the same, compressed timetable. One difficulty with the stretched-out, sequenced timetable is that the major donors might be reluctant to extend assistance in the early years with little more to show for it than a series of studies. Another is that hard policy choices could be deferred, then abandoned.

The second major difficulty is the assumption that giving more attention to the (cost-reducing) accompanying measures would have succeeded in putting them in place. There is a fairly clear trade-off between giving industry lower prices for fuel, electricity, water, telecommunications, and public transport and preserving those values for the accounts of the utilities that supply them, helping fund their investment programs or (in the case of fuel) providing important revenues for the GOS. Perhaps all one can say is that this problem deserved more systematic attention than it seems to have received. If some sharing of these cash flows with industry could have been negotiated, industry complaints would have been muted. All in all, it seems fair to conclude that not enough attention was paid, in advance, to the real possibilities and difficulties of reducing input costs; this vagueness allowed false hopes to arise within industry and needlessly gave it a weapon for criticizing the whole program.

One part of the diagnosis, and the remedy proposed, does indeed seem weak, namely, the approach to introducing greater flexibility in the labor market by making it easier for employers to hire and lay off workers. The latter problem — compounded by the division of employees into "temporary" and "permanent" with different rights — is undeniably an important cause of overstaffing and low productivity. Perhaps it was not unreasonable to expect that some improvement in labor market flexibility could be made by trying to push a change in the Labor Code through the National Assembly. But in retrospect a less confrontational strategy might have been devised, which might have been more promising. Comparative studies of other systems of labor law in developing countries might have helped.

Despite the great difficulty of learning what is really happening in the sector (closures, bankruptcies, layoffs, product import-volumes, duty receipts, and so on) — and then trying to sort out what has been caused by restructuring measures and what simply reflects long-term trends or normal business fluctuations — we lean toward a judgment on the NIP that is more favorable than unfavorable.

There seems little question that for most industries there was (until mid-1989 anyway) more competition than before restructuring began in 1986. Increased imports, not new domestic investment, provided this increased competition. The abolition of QRs and of *autorisations préalables*, plus the large increase in the number of licensed importers, underlies the apparent increase in imports. A large share of the increased imports may have led to "unfair competition" — to dumped goods and goods that are unsaleable in their producers' normal markets offered to Senegal at distress prices. This major problem appears not to have been anticipated. Nor does any mechanism exist for flagging such problems when they arise in particular product lines and for devising remedial measures. It was originally intended that a joint government-industry committee would be established to monitor implementation of the NIP (see Tables 4.2 and 4.4). This apparently was never done.

There have been complaints from industry that it was not adequately consulted during the design of the NIP and the PA, and that they were handed a fait accompli that was flawed because of inadequate industry consultation. Again, it is difficult to sort out the truth: World Bank representatives say they did considerable informal talking with industrialists, and note the weak state of industry organization, in 1984–1985, for conducting more formal talks. As noted, the climax meeting with employers just before formal adoption of the NIP does seem not to have been planned and conducted with sufficient sensitivity to gaining employer acceptance and feedback.

Formal compliance with the conditionality built into SALs II and III has been good: few specific actions to which specific dates were attached were not done, and most have been completed on time. The administrative backtracking by use of *mercuriales*, *codes de précision*, and minimum duties may, however, have undermined the real impact of the reform. The formal compliance record is marred only by a few lapses, such as the delay in renegotiating any of the *conventions spéciales* after completion of their overall review, and the previously noted failure to set up an adequate monitoring system.

We do not know how the NIP actually affected the level and structure of effective protection. Even at the level of the firm (a proxy for individual product classifications), it may be difficult to tell whether impacts reflect changes in the formal tariff regime, increased competition resulting from abolition of QRs or from increases in underinvoicing, dumping, or smuggling. It seems likely that changes in the tariff regime have been minor, and less than originally intended, but that the impact of "unfair competition" has been greater than anticipated. There are so many serious data problems that these impressions cannot be tested against numbers. And the monitoring system is so weak that they cannot be firmed up by reporting the views of "knowledgeable people."

There have been other attempts to assess the impact of the NIP — by USAID, by UNDP/UNIDO, and by the Economic Counselor of the U.S. Embassy. The most quantitative attempt to monitor the effect of the NIP of Senegalese industry has been made by a U.S. consulting firm, TvT Associates of

Washington, D.C., hired by USAID to help it develop a monitoring system for industry. Using quarterly survey data collected by the Ministry of Economics and Finance, TvT has constructed 10 indices for 19 industry branches, covering 33 firms. The indices are based on averages for the 1982-1985 period and present data for output, sales, inputs, sales prices, cost prices, input prices, exports, export prices, imports, and import prices. While the write-ups of each branch provide a considerable amount of useful information, it has proven extremely difficult to arrive at any overall judgments about the impact of NIP on the sector, based on these (often incomplete, often much-delayed) government-collected data; moreover, the GOS does not allow anyone else to collect survey data. Here are the main conclusions reported in the mid-1988 and mid-1989 monitoring reports:

> The data base, which is the main reference for our analysis, is not consistent enough to assess the overall effect of the NIP. In fact, the impact of the reduction of custom tariffs rates cannot be seriously assessed without analyzing the evolution of the consumption of imported inputs per branch [no data on inputs was then being collected in the MOF survey]. Also it is necessary to make sure that the eventual reduction of price of imports is the result of reducing the tariff instead of being the result of a favorable world price trend. [July 28, 1988]

One year later (June 1989), the USAID monitoring report stated that: "We still cannot reach global conclusions regarding the overall impact of the NIP on the industrial sector." There were problems with incompleteness of the base period database, failure of some firms to respond to the MOF quarterly survey, and the complete absence of employment inform on.

Despite the authors' inability to arrive at any overall judgment on the impact of the NIP, one can derive considerable understanding of the situations faced by several branches and individual firms. What stands out more clearly than the effects of the NIP are the number of firms that were experiencing difficulties for reasons that had little or nothing to do with the NIP (for example, a fish-processing industry that had lost international competitiveness, textile producers that were losing local market share to lower-cost producers in nearby countries even before the NIP increased competition from nonregional producers, and biscuit manufacturers suffering badly because they had to buy their sugar and flour from highly protected domestic producers while producers in the Côte d'Ivoire could buy their inputs at world prices).

Such difficulties reflect the long-run price a country pays for granting excessive long-run protection (through *conventions spéciales*) to start up industries that should never have been started in the first place (or only with much more limited concessions). The NIP has so far been unable to correct any of these past mistakes; but it speaks clearly about prohibiting similar mistakes in the future.

French observers are not the only critics of the SAL industrial program. In May 1989, after interviewing a dozen industrial firms, the Embassy's Economic Counselor drafted a report which said in part:

> Industrial sector production, which registered modest increases since 1982, declined about 12 percent between mid-1986 and mid-1988. Today it appears that sales and profits of a number of firms have fallen off, several thousand workers have lost their jobs, and the rate of closure of firms may be accelerating. These developments are due to a variety

of factors. Some appear to be associated with the NIP while others are completely unrelated to it. . . . [Our interviews] found an industrial sector which complains of being besieged by low-cost imports and hampered by high-cost factors of production, customs fraud, rigid labor regulations and the lack of badly needed financing. . . . To limit the damage now under way the GOS needs to move quickly. . . .

Our interviewees welcomed the opportunity to share their opinions of the NIP and became quite eloquent in their virtually unanimous denunciation of the policy. Most agreed with the principle of liberalization and competition, but they argued that the policy had been badly designed and poorly implemented. They faulted the World Bank for failing to consult Senegal's industrialists and for relying on theories which they considered had little basis in reality. All agreed that the trade liberalization measures had been taken too abruptly over a two-year period while many of the "accompanying measures" have either failed to materialize or else have been put into place only after unconscionable delays.

A recent USAID internal review has produced a more positive assessment. It found evidence that the NIP reforms "are already producing desired effects and should continue to produce favorable effects. . . . Some industrial firms visited . . . have already demonstrated a capacity to adjust to the conditions of world market competition." The team's strongest impression, however, was the emergence of new strength in the informal sector, including small-scale or artisanal manufacturing. This sector appears to have benefitted strongly from the NIP's reductions of customs duties (which were, however, mostly rescinded in August 1989) and from the surge in imports following the ending of QRs and the liberalization of import trading. Despite shortcomings in the reform process, the review recommends that USAID continue to support donor efforts to help restructure the sector. An improved program will require better donor and government communication with affected groups, an improved monitoring system, greater willingness and ability to make midcourse corrections, and the ironing out of "competing donor agendas" (this apparently refers to tension between the IMF's concern for maintaining government revenues and other donors' willingness to sacrifice some of these revenues to lowering industrial costs).

Another recent review (late 1989) was done by MDIA under UNDP/UNIDO sponsorship ("L'Ajustment du secteur industriel au Sénégal"). The review concludes that there has been very little improvement in the institutional environment within which large-scale industry operates. About two-thirds of the 22 firms visited expressed optimism about their ability to adapt to the new competitive environment. Nevertheless, the three-year reform period has seen a strong and rapid deterioration in the commercial and financial environment confronting industry (the Bank-sponsored APEX facility did not provide the kind of help needed). Restructuring should have been preceded by specific subsector studies (not just the BCG global study); there should have been more consultation with industry and labor; and the adjustment period should have been stretched over five years, at minimum. There has been no relief from labor market inflexibility nor from the high cost of nonlabor inputs. Budget constraints largely explain the GOS's inability to strengthen agencies intended to help industry restructure (ONFP, DIRE, CICES, ASACE, SONEPI). With external supports so weak, industry's ability to adjust has depended mainly on what it could do internally — through better work organization, training, and management improvements. The review has little to say about what ought to be done in the future: its one and one-half pages of recommendations are brief and general, emphasizing a need to rethink restructuring strategy in cooperation with affected parties.

A Summing Up: 13 Questions, 13 Answers

Perhaps our net judgments, and suggestions for the future, can best be conveyed by the answers we give to the following questions:

1. Has industrial restructuring been a success? No.

2. Has industrial restructuring been a failure? No.

3. Could the sector have been left as it was, with no attempt at restructuring it? No.

4. Should the World Bank and other donors have limited themselves to making a technical assistance diagnosis of the sector's problems, leaving it up to the GOS either to take, or not to take, whatever remedies it wished? No.

5. Were the NIP and its PA developed with sufficient industry consultation to gain employer comments on and endorsement of the program? No.

6. Was the degree of deprotection excessive? No.

7. Should the deprotection steps have been stretched over five years instead of two and one-half? Yes.

8. Were all major problems correctly foreseen? No. (Major points missed: infeasibility of introducing key accompanying measures and the intensity of "unfair competition.")

9. Was adequate assistance provided to help finance productivity-increasing investments? No.

10. Has restructuring strengthened Senegal's industry by forcing employers to take actions that make it more competitive? Little such evidence to date.

11. Was adequate machinery put in place to monitor program progress? No.

12. Is industrial restructuring inherently difficult to design, to implement, and to evaluate? Yes.

13. Should the World Bank and other donors attempt to continue, through fine tuning, the industrial restructuring effort? Yes.

CHAPTER FIVE

THE FRENCH AND U.S. STRUCTURAL ADJUSTMENT PROGRAMS

I. INTRODUCTION

Although the IMF and the Bank have played the lead roles in Senegal's stabilization and structural adjustment programs, some of the larger bilateral donors have also participated. The United States and France, the two largest, have both developed independent structural adjustment programs parallel to and coordinated with the Bank's much more visible assistance. In both cases, however, the policy-oriented, budget-support programs still absorb only a minority share of those countries' total assistance programs, which have continued to be dominated by project aid. This chapter reviews the American and French experience with this new form of assistance.[1]

Table 5.1 summarizes the more complete Table 5.2. It shows the trend of total ODA for the decade 1978-1987, the shares of bilateral and multilateral aid, the relative amounts of American and French aid, and the proportion of total bilateral aid coming from the United States and France combined.

The following points are worth noting:

- Bilateral aid (from 16 countries) has provided two-thirds of total assistance, with no clear trend in the proportion;

- French and U.S. aid have accounted for over half of all the bilateral assistance. The larger secondary bilaterals include Canada, the Federal Republic of Germany, Italy, and the Arabs (classified as one donor). Of the secondary bilaterals, as of 1989, only the Swiss government had participated in structural adjustment assistance through cofinancing;

- French aid has been, on average, about three times greater than U.S. aid, reflecting the historical colonial connection; and

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[1] This chapter draws heavily on two background papers prepared for this study: G. Chambas, "L'Aide Française à l'ajustement structurel," October 1989; and S. Keener, "Structural Adjustment in Senegal: Role of the U.S.," September 1989; and on a recent USAID evaluation of its ESF program: J. Huber, "Evaluation of the Economic Support Fund (ESF): USAID/Senegal Program Grant Years IV and V," TvT Associates, September 1989.

TABLE 5.1

OFFICIAL DEVELOPMENT ASSISTANCE TO SENEGAl, 1978-87
(Commitments, in US$ millions)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1978-87 (Avg)
Bilat	187	199	257	251	368	336	347	250	409	454	306
Multi	84	163	120	119	114	92	99	63	229	438	152
Total	271	362	377	370	482	428	446	313	638	893	458
Bilat %	69	55	68	68	76	79	78	80	64	51	67
France	74	94	115	144	94	101	121	142	150	175	121
USA	25	23	37	33	41	56	68	47	52	47	43
Fr + USA as % all bilats	53	59	60	71	37	47	54	75	49	49	54

Source: Data supplied by USAID/Dakar.

Note: In line with convention, figures exclude assistance from International Monetary Fund. But Structural Adjustment Facility loans are in fact "assistance," not short-term balance of payments support. These amounted to SDR 17 mn in 1986 (first SAF); SDR 26 mn in 1987; SDR 60 mn (ESAF, first year) in 1988. The total to be disbursed in 1988-90 is SDR 145 mn.

TABLE 5.2

AMOUNT OF DONOR PARTICIPATION

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Bilateral aid										
Canada	4.6	2.9	2.5	3.4	5.3	6.2	6.5	4.6	3.0	3.8
France	34.7	27.0	41.6	31.7	33.6	26.8	24.6	27.2	25.8	25.9
Germany	2.5	3.8	4.4	3.2	6.2	6.0	6.0	5.2	4.5	2.4
Italy	0.1	0.1	0.0	0.3	0.3	2.1	2.1	5.2	5.2	6.7
Japan	0.7	1.1	1.9	2.2	2.2	4.7	3.4	3.9	2.1	3.7
Arabs	4.4	0.4	0.8	14.0	5.7	14.8	15.8	13.0	6.0	4.9
United States	6.1	8.7	13.5	9.4	11.3	14.4	18.1	14.5	6.7	7.1
Other	5.6	5.2	5.7	3.9	7.6	5.1	6.1	5.7	9.0	7.3
Total Bilateral Aid	58.7	49.2	70.4	68.1	72.2	80.1	82.6	79.3	62.3	61.8
Multilateral Aid										
EEC	20.9	35.2	9.1	14.9	13.6	5.0	5.5	2.0	10.9	11.0
IDA + IBRD	5.0	6.3	7.0	12.2	7.4	6.3	5.5	9.7	19.1	17.3
Other	15.4	9.3	13.5	4.8	6.8	8.6	6.4	9.0	7.7	9.9
Total Multilateral Aid	41.3	50.8	29.6	31.9	27.8	19.9	17.4	20.7	37.7	38.2

Source: Derived from OECD data (calculated by R. Greene and A. Thioune, USAID, Dakar, 1989)

- Although not shown in Table 5.1 (see Table 5.2), the largest multilateral donor has not been the World Bank but the European Economic Community (EEC), the bulk of whose development assistance flows through the Fond Européen de Développement (FED). The EEC in 1989 and 1990 was engaged in a joint effort with the World Bank and the CCCE (Caisse Centrale de Cooperation Economique), negotiating an agricultural sector policy loan.

Although one might think that the presence of multiple donors with independent structural adjustment programs would raise serious problems of coordination, of "turf," or of conflicting policy objectives, these problems seem to have been minor. As noted especially in the chapter on agricultural reform (Chapter Three), there have been numerous differences of emphasis and opinion on various reform particulars. But the extent and general cordiality of donor coordination in Senegal have been unusual. The key problem, as in the case of the Bank, has been the donors' inability to achieve the structural changes they sought, and for which they appeared to secure nominal agreement from the GOS. We look first at the French experience, and then at that of the United States.

II. THE FRENCH ROLE IN STRUCTURAL ADJUSTMENT

Official French development assistance moves through two channels: the Ministère de l'Aide et de la Coopération (MAC, the French government aid agency, acting through the Fond de l'Aide et de la Coopération, or FAC), and the CCCE, a parastatal financing agency. The MAC is the channel for grant assistance, including grants for general budget support; its funds come from the Treasury. The CCCE makes only loans; its funds come from borrowings on the French capital market. The CCCE's normal project loans bear an interest rate geared to the CCCE's borrowing rate; its structural adjustment loans, however, bear a modestly lower rate, subsidized by the Ministry of Cooperation. Assistance from both sources involves a common procedure that includes tripartite field missions on which are represented the Ministry of Cooperation, the Ministry of Economy and Finance, and the CCCE. Whether a country is given grant or loan assistance depends on judgments about its public finances and its repayment ability. Since Senegal has been designated as eligible for adjustment loans, but not for general grant budgetary support (an aid category reserved for the poorest countries), our attention will focus entirely on structural adjustment support from the CCCE.

Table 5.3 shows the yearly amounts of such aid over the 11-year period, 1978/79-1988/89, and its distribution between structural adjustment loans and other forms of financial assistance. Until the end of the 1970s, almost all the CCCE's assistance took the form of "hard" loans for specific projects or institutions. It did not use its financial assistance to try to influence macroeconomic or development policies. Whatever influence France exerted in those areas (and it was considerable) was exerted indirectly through the technical advisers who continued to work in most ministries as part of French technical assistance, and through trusted French officials who enjoyed access to and audience with Senegalese decision makers.

When the fiscal crisis of the late 1970s arrived, French officials quickly realized that Senegal's problems were too deep-seated to be relieved without a change in the form of foreign assistance. French-aided projects suffered from Senegal's inability to fund its share of the costs and it was obvious that the

TABLE 5.3

FRENCH AID FOR STRUCTURAL ADJUSTMENT
(commitments, in billions of CFAF)

Year	Type of aid: Struct. Adj.	Other	Total	CFAF/$ (an. average)	Struct. Adj. Total (%)
1978/79	2.5	8.0	10.5	201	23.8
1979/80	2.5	7.0	9.5	225	26.3
1980/81	14.0	20.4	34.4	272	40.7
1981/82	5.0	25.5	30.5	329	19.6
1982/83	7.5	17.9	25.4	381	29.5
1983/84	12.7	19.4	32.1	437	39.6
1984/85	7.3	19.1	26.4	449	27.7
1985/86	10.0	17.6	27.6	346	36.2
1986/87	12.5	28.9	41.4	301	30.2
1987/88	12.5	38.0	50.5	298	24.8
1988/89	15.0	27.5	42.5	316	35.3

Source: Caisse Centrale de Coopération Economique (CCCE) and the Organization for Economic Cooperation and Development. Exchange rates from various World Bank reports.

country would not be able to regain fiscal control without large amounts of outside budgetary aid. The problem was much too big for French aid alone; besides, French advisors and French interests were still prominent in the country and hence French policy could not be expected to have as much detachment and independence as others. Indeed, French officials are said to have felt that the GOS preferred others to play the lead role. So the French welcomed the roles that the Fund and the Bank quickly assumed.

French officials were more sympathetic to the stabilization efforts of the Fund than to the early structural reform efforts of the Bank (the Bank's SAL I dealt primarily with changes in agriculture, a sector of special French interest and expertise). Many French felt the Bank was overambitious in its reform objectives and perhaps not sufficiently sensitive to the delicate political situation in which the GOS found itself.

The French characterize their early relation to stabilization/structural adjustment as one of *alignement* — acceptance and support of IMF and Bank objectives and forms of aid but without any strong participation in the policy dialogue.[2] In 1978/79, for the first time, France made nearly a quarter of its aid available in the form of general budget support. That proportion was to average just over one-third of much larger total flows during the following decade (Table 5.3). Some details on French structural adjustment loans during that decade are given in Table 5.4.

When the Bank resumed its policy-based lending discussions in 1984, after the cancellation of SAL I in 1983, most French officials found themselves in general agreement with the Bank's conviction that Senegal's inefficient state entities should be cut back and its poorly performing productive sectors reformed. But there were persistent differences in emphasis and on particular policy issues. Most French observers believed, for example, that Senegal's agriculture (particularly rice and sugar) deserved more protection than the Bank wanted to give it; the rural world needed more organization (for example, into cooperatives) if market mechanisms were to work equitably; cereals prices, including coarse grains, should be supported; exposing farmers fully to fluctuating world prices would be undesirable; and rice marketing liberalization was of doubtful benefit.

In industry, many French felt that the New Industrial Policy would be too *brutale*, unless all parts of the package could be delivered and the timetable stretched out; new SAL structures might eclipse regular GOS agencies; and SAL activities were monopolizing the energies of too many of the best people of the GOS. Many French aid officials apparently felt that the Bank's liberalization policy was somewhat doctrinaire and extreme. But the French were reluctant to push their views with the Bank because of the size of French interests in the country, especially in industry. And the French fully recognized the dominant need to regain control over Senegal's macroeconomic parameters, through restructuring the economy. That imperative made the French rein in their reservations and align themselves with the Bank and Fund programs.

A major difference between French and American adjustment assistance has been that the French provided loans, the Americans grants. Moreover, the French loan terms have not been particularly

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[2] French officials have and had the rights of participation that key or principal donors have in any country. Bank and Fund staff consult regularly with local French aid officials, and visiting missions rarely fail to brief counterparts in FAC, the CCCE, and the Trésor.

TABLE 5.4

SOME DETAILS OF FRENCH STRUCTURAL ADJUSTMENT LOANS

Signed	Amount (CFAF bn)	Borrower	Rate %	Term ...yrs...	Grace	Use of Funds
12/78	2.5	BNDS	10.200	15	4	capital budget
1/80	2.5	BNDS	12.770	15	4	proj. counterpart fnds.
11/80	10.0	BNDS	14.440	15	5	capital budget
8/80	4.0	State	7.500	15	5	debt arrears
3/82	5.0	State	10.000	15	5	"restructuring"
12/82	7.5	State	16.125	15	5	"
3/83	10.0	State	9.825	15	5	"
12/83	2.7	State	14.200	15	5	"
3/84	7.3	State	8.095	15	5	"
6/85	10.0	State	9.150	15	5	"
9/86	12.5	State	5.750	15	5	"
9/87	12.5	State	5.700	15	5	"
10/88	15.0	State	0.681	30	10	"

Source: Chambas, and Caisse Centrale (CCCE), 1989.

"soft": interest rates have been over 10 percent in five of the 13 last years and, until last year, all carried a 15-year term after a four- or five-year grace period. However, the loan-grant distinction became history in 1989 when President Mitterand, in Dakar, converted most of the unrepaid loans into grants.

The Caisse Centrale's adjustment aid has taken the form of straight budget assistance — originally to pay for items in Senegal's capital budget but soon changed to cover selected noncapital expenditures: repayment of debts owed by the GOS and by public enterprises, the making of *contrats-plans* for individual enterprises, or reform of a *filière* (vertically integrated sector). French adjustment assistance has been much less concerned with macroeconomic performance than has been, for example, World Bank adjustment lending — the French have left such issues to the Bank and the Fund. Nor has explicit conditionality been an important aspect of France's adjustment assistance. The French have left to others the specification and enforcement of structural reforms. A related aspect is the absence of tranching in the Caisse's adjustment loans, although the customary use of annual adjustment loans carries similar implications. In Senegal, the French have never interrupted their 12-year series of adjustment loans because of "poor performance" on an earlier loan.

One final observation — one that can also be made of the structural reform assistance from the United States and even from the World Bank: despite the introduction of structural adjustment aid in the late 1970s, two-thirds of French development assistance remained in the traditional project and technical assistance mode. When structural adjustment lending was introduced, then substantially increased, it did not gradually push out project lending: the volume of project lending also increased substantially, leaving the proportion of project assistance at the end of the decade about where it was during the early years of adjustment lending. The French, like most other donors, have financed a larger and larger share of each project's costs.

III. POLICY-BASED ASSISTANCE FROM THE UNITED STATES

The United States has addressed issues of development policy and institutional reform through three instrumentalities: the Economic Stabilization Fund (ESF), the Africa Economic Policy Reform Program (AEPRP), and the self-help measures under Titles I and III of its PL 480 assistance. Most of our attention will be given to the ESF program, much the largest of the three programs; we briefly describe the other two at the outset.

The Africa Economic Policy Reform Program (AEPRP)

AEPRP-I in Senegal began in 1986, with a US$ 15-million grant designed "to play a secondary, reinforcing role to the major industrial sector reform initiatives supported by the World Bank." The funds were released in three tranches (1986, 1987, and late 1988) upon satisfactory evidence that the GOS had complied with grant conditions (most related to the Bank's SAL II conditions on reducing duties and lifting QRs). The counterpart funds generated were used partly to repay the debts which certain agroprocessing parastatals owed to the banking system, and partly to repay the government's own arrears to the private sector.

In January 1990, USAID assembled a four-man team to evaluate experience under this initial AEPRP grant. The team's report represented a somewhat "revisionist" position; in other words, it contained a number of judgments at odds with the generally neg ve reports by others on the adverse effects of the New Industrial Policy. The Lowenthal Report (to use the name of the team's leader) found that reduced protection, especially via removal of QRs, had administered a needed shock to industrial operators, and that it seemed to be working, with several formal-sector firms beginning to take steps that might allow them to survive in the more competitive environment the NIP was intended to produce. The report argues that the "big winner" in the short term appears to be the informal sector, which has shown a "dynamic response . . . to customs and import liberalization and may serve as a spring-board for economic growth in the 1990s."

As for the struggling formal sector, the shock effect of the NIP has undoubtedly been beneficial; many of the firms now in difficulty were ailing before the NIP came along, so the policy itself cannot be faulted for being too drastic. Despite some criticisms and disappointments, the report strongly supports USAID's participation in what it regards as a needed and generally successful program of industrial policy reform.

The positive evaluation in this report raises a number of questions about the assessment of bilateral policy-based lending. The first is how to sort out the USAID contribution to the reform effort from that of other donors — notably, in this case, the World Bank. The U.S. contribution in money was a minor (though not insignificant) part of the total aid linked to the industrial policy reform. Table 5.1 shows that, in 1986 and 1987, total aid commitment averaged about US$ 750 million a year, while the average U.S. commitment was US$ 50 million, of which the AEPRP was US$ 15 million (for these years). AEPRP's intangible influence probably counts for more than is indicated by the simple arithmetic of its relative weight in terms of money. But the small share of aid it represents still leaves questions about potential impact.

Moreover, USAID's role in the area of industrial policy reform was minor and supportive, and not nearly so active and visible as it had been in agriculture. It is not clear that USAID participated in the crafting of the industrial reform, or in the dialogue with the GOS prior to its adoption. AEPRP's main contribution was one of fast-disbursing budget support.

To these questions about the extent of AEPRP's impact — how much it defined or influenced the content or evolution of industrial policy reform — should be added a second issue: the effectiveness of the industrial reform. As shown in Chapter Four, the New Industrial Policy was introduced without adequate consultation; it was asymmetrical in its application (deprotection was not balanced by "positive" labor market and institutional changes that would have increased competitiveness); and it is generally believed that the NIP accelerated industrial decline and raised unemployment. Moreover, in 1989, the level of effective protection was back up near its prereform level. So it would be hard to call the reform program a success, despite the positive elements pointed out in the Lowenthal Report.

PL 480: The Self-Help Measures (SHM) of Title I, and the Common Fund

Beginning in the mid-1980s, USAID began to use its control over counterpart funds from food aid to set conditions in support of policy objectives. In view of the link to food-sector imports, it was only natural that USAID should use PL 480 counterpart fund conditionality for the promotion of agricultural objectives. The particular objectives it chose to support were centered on promoting food self-sufficiency through the expansion of domestic grain production. We will not review experience in tying policy and institutional reforms to traditional food aid; it is enough to list the main conditions USAID was proposing in 1987. In the language of PL 480, conditionality measures are called "Self-Help Measures" (SHM). Here are the conditions proposed:

- Domestic cereals marketing is to be deregulated. There are to be no restrictions on purchasing, marketing, storage, or transport. The only price the GOS will set is a floor price;

- The coarse grains floor price mechanism will be made effective and will be operated in accordance with criteria set by members of the Common Fund. Farmgate prices will be monitored, the floor price guarantee agency (the Commissariat de Sécurité Alimentaire or CSA) will be given adequate funds, and sufficient buying points will be established;

- Input distribution is to be progressively privatized. Fertilizer subsidies are to be phased out; Rural Development Agencies are to be withdrawn from input distribution and marketing functions; and coops encouraged to participate in input distribution and marketing;

- The National Cereals Council will be strengthened so that it can perform its intended functions;

- A method for estimating the country's cereals requirements, production, and deficits/surpluses will be agreed upon by the GOS and the donors in the Common Fund; and

- Transport assistance will be made available to encourage wider domestic marketing of specified commodities.

USAID's principal instrument for pushing these agricultural objectives was its participation in the Common Fund (CF), a joint GOS/food donor entity set up in 1985 to control the use of counterpart funds generated by food aid. The cereals program had been jointly suggested by the World Bank, USAID, and other donors and had been endorsed at the 1984 Consultative Group (donor) meeting. A key objective of the donors, and especially of USAID, was to improve the operations of the national cereals board, the CSA. The donors hoped to do this through conditionality attached to the use of the CF money.

Progress as of mid-1989 in meeting these conditions or objectives is reported by USAID as follows:

- In October 1985 the GOS announced (in the press and on radio and TV) that henceforth there would be no restrictions on private purchase, storage, or transport of local cereals (millet, sorghum, and maize);

- In January 1986, the GOS announced a floor price for the purchase of local cereals;

- The CSA was allocated funds from the CF to enable it to make floor price cereals purchases;
- In November 1986, a National Cereals Council was established. Its authority and functions were not clear, however; nor was its relationship to the CSA. Two years later, USAID deliberately regarded the Council as still-born and chose not to try to breathe life into it;
- The GOS avoided the practice of publicly announcing the beginning of the annual agricultural "campaign," thereby ratifying the notion of open cereals markets;
- The GOS agreed that the CSA would make no free distribution of cereals, except in emergencies. All CSA cereals were to be sold (a condition laid down by the CF);
- The GOS received not only food aid under PL 480 but other compassionate commodities as well (Title II goods, mainly supplies for maternal and child health clinics). The GOS was made to pledge that it would use the proceeds of Title I food aid sales to pay the in-country transport costs of Title II commodities;
- The GOS began, in 1987, a system for monitoring and publicizing the market prices of local cereals;
- As noted earlier (Chapter Three,) local coarse grains are not as easy as rice for urban consumers to use, and hence not as popular. Studies were sponsored seeking an improved technical basis for expanding local cereals sales. Not much progress has yet been made on this front, however;
- Starting in late 1986, the GOS began developing a methodology for assessing the country's need for food assistance (essentially a residual after projecting requirements and local production); and
- Fertilizer marketing was to be progressively privatized; this meant cutting back on distribution by the RDAs.

USAID/Dakar and AID/Washington in 1988-1989 engaged in transatlantic debate on the floor price issue. The two ends of the AID bureaucracy agreed that the CSA had a proper role in trying to stabilize the prices of locally produced grains but they differed on how this ought to be done. USAID/Dakar went along with the CSA's intention to announce in advance threshold purchase and sales prices, establishing a publicly known band within which it would try to stabilize cereals prices. AID/Washington did not like that idea; it thought the CSA should not make any price announcements in advance but should operate "as a market participant with a special responsibility" — much as central banks operate, quietly and discreetly, in national currency markets to influence the price of foreign exchange. The outcome was closer to the Dakar Mission's position (and the CSA position) than to Washington's.[3]

Assessment of the efficacy and impact of the food-aid-based policy lending is made difficult by the same problem noted for the AEPRP: it is not easy to identify specific U.S. components of a policy agenda that was shared by the donor community. Cereals marketing liberalization has been a part of World Bank and IMF dialogue since 1980. U.S. involvement was clearly more substantial than in the industrial sector, but with the possible exception of fertilizer policy, it does not seem that the SHM contain any autonomous conditionality. U.S. participation in relevant dialogue, however, appears to have been substantial.

The overall results of the agricultural policy reform were discussed earlier. We should note here that the PL 480 conditionality on cereals policy suffered from the same general weakness that characterized the overall policy reform effort in agriculture: frequent lack of clarity and absence of consensus on specific policies. The question of floor pricing and the associated issue of the appropriate role for the cereals board are excellent examples. As noted earlier, donor consensus on the feasibility and desirability of floor pricing eroded after 1987. The Bank began moving fitfully toward border parity as the central pricing principle, and away from support for stabilization schemes supported by the GOS and the bilateral donors. This divergence of views was mirrored within USAID.

Broader issues arise in assessing the institutional impact of the PL 480 policy lending. As in all heavily aided countries, the question of counterpart funds became important in Senegal. To coordinate its use, the donors and GOS created the Common Fund. While the objective was sound, the operations of the CF generated considerable criticism by U.S. officials. In mid-1989, they argued that after three years of existence the CF had little to show except a plan for its future work. Due to an inadequate staff and a habit of working through committees, the Fund was not living up to its mandate to manage the sales proceeds from food aid in support of the country's cereals strategy. A major source of the Fund's ineffectiveness stemmed from a fatal structural defect — its joint composition. That prevented it from becoming anything more than a debating society, with considerable GOS/donor controversy. Some U.S. officials urged that the CF become a donor entity only, interacting with the National Cereals Council, the CSA, and the Ministry of Finance. They urged the CF to focus on a few key policy issues, enforced by CF conditionality, and avoid acting (as the GOS often wanted it to act) as a project-funding entity. This American criticism did not carry the day, however; aside from a few minor modifications, the CF remains a joint body and continues to approve projects financed with CF resources.

The Economic Support Fund (ESF)

The Economic Support Fund has constituted USAID's most important policy-reform instrument in Senegal. The Senegal ESF program has been dedicated exclusively to agriculture and agroindustries;

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[3] There was also some discussion of fertilizer subsidy policies. AID/Washington wanted airtight guarantees that subsidies would end on December 31, 1988; USAID/Dakar could only assure its headquarters that USAID's funding of the subsidies would end -- but it could not guarantee that other donors would not finance them.

however, with the exception of the ending of fertilizer subsidies, ESF has dealt with a different set of agricultural policy issues than those on cereals policy pursued through PL 480 SHM and the CF from 1985 onwards.

USAID has approached its ESF grant making in three-year cycles, with broad objectives articulated internally at these intervals. Formal negotiations with the GOS, however, take place annually and result in agreements (ESF I in 1983, ESF II the following year, and so forth) that spell out the specific objectives, the conditions the grantee must meet to qualify for tranche releases, and the ways in which counterpart funds are to be used. This review, therefore, covers the two sets of ESF agreements (ESFs I-III and ESFs IV-VI) that span the six budget years from 1983/84 to 1988/89. Table 5.5 shows the dates, amounts, and local currency use of all six ESF grants, and of the AEPRP and PL 480 policy grants as well.

The program laid down for both ESF cycles focused almost exclusively on agriculture. Most of the broad issues were the same: cereals marketing liberalization, the *péréquation* (price equalization) system of agricultural pricing, and the efficiency of agroindustry. The mechanism for resource transfer was also the same: direct cash transfers into a reserve account, with counterpart CFA francs used to pay off arrears to the private sector. (Under the first three ESFs, it was GOS arrears that were paid down; under the second three it was arrears of agroindustrial public enterprises.)

The same kinds of problems arise in assessing the ESF program as arise for other forms of bilateral policy lending. First, it is difficult to sort out the U.S. input and impact from that of other policy lenders who were pushing on a parallel path, especially the World Bank. Second, ESF has a strong political flavor; it is designed to help politically friendly countries that are in economic difficulty. So it cannot and should not be judged as a policy reform vehicle alone; even without a policy impact the grants could be judged "successful" if they cemented the political alliance, or directly contributed to U.S. security or political objectives, such as the maintenance of overflight privileges or friendly votes in the United Nations.

Related to this is the fact that ESFs I-III were in part a learning experience and in part a resource-gap-closing exercise. As a result, its "policy bite" was weak. The addition of ESF assistance to its traditional project aid forced the Dakar USAID mission to add staff with new skills in macroeconomics and policy analysis. There was not a good pool of agricultural sector work to draw on: the World Bank had not been strong in developing background knowledge in this field. So USAID's first moves were somewhat tentative and experimental. The major objective was budget support or gap closing: the first ESF grants were urgently disbursed to help Senegal meet its performance targets under IMF agreements. On the substantive or policy side, USAID limited its conditionality, under ESFs I and II, to reinforcing the debt-reduction objectives that were a centerpiece of conditionality in IMF agreements. Forcing the GOS to pay off some of its overdue agricultural loans would contribute to reestablishment of some liquidity in the banking system. This was an important action but not one that addressed agricultural policy or the structure of agricultural institutions.

Nonetheless, the ESF program, through its two cycles (1983-1989) did have a clear central focus on agriculture, as noted above, and this facilitates evaluation. The agricultural policy changes USAID addressed during these six years may be grouped into the following six clusters:

TABLE 5.5

USAID STRUCTURAL ADJUSTMENT GRANTS, 1983-1989

Program	Date	Amount (US$ Thousands)	Local Currency Use
ESF I	8/83	5,000	Repayment of crop credit due to the banking sector
ESF II	12/83	10,000	Reimbursement of crop credit and GOS arrears on ONCAD debt
ESF III	12/84	15,000	Repayment of the credit for the peanut seed stock
ESF IV	12/85	12,484	Repayment of GOS arrears due to private enterprises
ESF V	5/87	11,075	Repayment of GOS arrears due to private enterprises
ESF VI	11/88	9,700	Repayment of GOS arrears due to private enterprises
AEPRP-I	8/86	15,000	Repayment of GOS & parastatal arrears
PL 480	12/85	9,500	Repayment of agriculture-related debt and financing of Self-Help Measures
PL 480	1986	10,000	Same
PL 480	1987	10,000	Same

Sources: Adapted from the Huber Report, p. 33-a ("Evaluation of the Economic Support Fund (ESF), USAID/Senegal, Program Grant Years IV and V," September 1989. TvT Associates, Washington, DC). AEPRP figs. from the Lowenthal Report. PL 480 figs. from an internal USAID memo.

- Privatization of rice imports and liberalization of domestic rice marketing;
- Removal of fertilizer subsidies and privatization of its import and distribution;[4]
- Reducing operating deficits and increasing the efficiency of key agroindustries, notably in vegetable oil and sugar;
- Reducing or eliminating subsidies between crops (*péréquation*), and converting GOS support from an "official producer price" basis to a floor price basis;
- Limiting the functions of the Rural Development Agencies; and
- Reforming the private but monopolistic wheat import system.

We assess the program from three perspectives: (1) its conceptual soundness and the quality of the dialogue; (2) the extent of GOS compliance; and (3) the observable impacts, given its specific objectives.

The Appropriateness of the Policy and Quality of the Dialogue

The general orientation of the U.S. program was eminently sound. There were good reasons to select agriculture as a target sector and to limit ESF to that sector: it is the largest production sector; its recent performance had been weak; the World Bank's 1980 attempt to address the sector's problems in SAL I had fallen to the ground when SAL I was canceled, leaving something of a vacuum; and USAID had considerable knowledge of the sector through its years of project assistance therein. In its early selection of objectives, USAID followed the IMF and the Bank in specifying that its funds be used to clean up the financial mess that characterized the relations among the GOS, some agricultural parastatals, and the banking system. Paying off someone else's debts for them hardly counts as a "reform," although it was intended to help restore liquidity to the near-bankrupt banking sector, a vital need for renewed growth. An equally sound early step was USAID's support for the multidonor insistence that the GOS think through, and commit to writing, a New Agricultural Policy.

One of the earliest reform targets of USAID was the Caisse de Péréquation et de Stabilisation des Prix (CPSP). Presiding over a set of cross-subsidy arrangements for major crops that had become intolerably expensive, the CPSP was inefficient and widely accused of corruption. Working with the World Bank, USAID set out to help put in order, and perhaps to shut down, this important agency. Since the agency's principal source of funds for subsidizing producer prices came from its monopoly position as the country's only rice importer (a position that invited favoritism and corruption in the agency's relations with the private domestic wholesalers), it was reasonable for USAID representatives to see privatization of rice imports as a way to increase efficiency and equity in rice imports and to reduce the CPSP's role in the economy. If producers of important crops (notably peanut farmers) were

[4] Fertilizer subsidy policy was also addressed in a US$ 5 million grant from the Sahel Development Fund (1983) and in a US$ 20 million project, the Agricultural Production Support Grant (1987-1991). Fertilizer subsidies and RDAs are discussed in Chapter Three.

to continue getting subsidies, the GOS should finance them directly from the budget, using general revenues.

In most of its chosen policy reform targets, USAID's analytic footing was reasonably sure. The policy analysis underlying the program was based in part on its own studies (for example, the substantial agricultural sector survey done in 1985 by Abt Associates), and in part on World Bank analyses; its conditionality was certainly closely linked to that of the Bank.

But in three areas where USAID had its greatest autonomous influence, questions can be raised about the suitability of the proposed policies. First, USAID and U.S. Embassy economic staff were closely associated with the proposal to privatize rice imports. As noted in Chapter Three, the reform effort failed. The main reasons, although not the only ones, seem to be the inability to demonstrate significant economic advantages in the change, the underestimate of the financial constraints on entering into rice importing, the thinness of the trading sector, the underestimate also of the technical/administrative/political difficulties of replacing the *péréquation* system with a simpler, more transparent system of import taxation. Political factors and obstruction by rent-earners entered also, of course, but they might have been overridden if a more feasible reform program had been put forward.

The United States also took the lead in the fertilizer subsector, calling for liberalization of marketing and gradual reduction of subsidies. Attacks on the conceptual soundness of the U.S.-backed policies have come from two sides. On the one hand, interventionist-minded critics of subsidy removal say that in the presence of riskiness and lack of credit arrangements, Senegalese dryland farmers will use very little fertilizer if they have to pay full cost. This argument was considered in Chapter Three. Free marketeers, on the other hand, might say that USAID's intervention (along with that of the French) allowed subsidies to continue, without much positive effect, for many years. After all, the GOS had accepted an IMF proposal to abolish all subsidies cold turkey in 1983. It was only American (and French) concern over too rapid change that allowed the subsidy system to linger on for six more years.

The most serious error in U.S. reform mongering, however, comes from none of the above, but from the wheat affair. One of the major objectives of the 1986-1989 ESF program was maximization of GOS receipts from wheat imports. This was not the only objective, however. The U.S. Embassy had been put under pressure by U.S. wheat exporters to "do something" so they would not be blocked from competing in Senegal by unfair trade practices. Although USAID was responding to this pressure, it was also convinced that the country's existing wheat-importing arrangements hurt local consumers and the GOS as well as American wheat exporters.

Senegal does not grow wheat, so the urban population's taste for French-style *baguette* bread must be satisfied from imports. The latter are handled by two milling companies (both French-owned) with which the GOS had price compensation agreements that were far from transparent but were reported to give every advantage to the companies. So as USAID and the GOS moved toward ESF VI, USAID laid down a "condition precedent" that Senegal would have to purchase its 1987 wheat imports through a process of international competitive bidding (ICB), to be conducted in late 1986. This was at a time of especially aggressive U.S. subsidization of exports.

A U.S. firm (Cargill) won the competitive bid, which was conducted by the CPSP. The price was considerably lower than that traditionally paid by the French-owned Dakar millers, whose government operating subsidy (based on the milling yield, or flour-recovery percentage) appeared to give them excess profits. The purchase of low-cost wheat converted the traditional government subsidy into an import-generated profit, part of which the mills now owed the GOS.

The millers were not happy with their first encounter with the CPSP-administered ICB. When the CPSP showed some resistance to accepting full responsibility for administering the new import contract, this responsibility was turned over to the Dakar millers, to whom the wheat was to be delivered. This amounted to letting the fox guard the chicken-house — putting the millers in a position to delay or sabotage the reform.

Despite the millers' resistance, the contract held. To demonstrate the public benefits of import liberalization, USAID urged the GOS to use part of the import windfall to lower the price of bread. The rest of the excess import profit was used to pay off a subsidy owed to CSS in return for lowering the retail price of sugar. (CSS is owned by the same Frenchman who owns the larger of the two Dakar milling companies. This individual is said to wield considerable political influence, both in France and in Senegal.)

One would have expected 1988 procurement also to have used ICB. The dominant Dakar miller discovered, however, that his agreement with the GOS could not be canceled without one year's notice. So 1988 procurement went forward under a system of international "reference prices" which in effect permits the millers to arrange their own imports provided they do it at "average world prices." USAID was uncertain whether this would permit the GOS to be free of its prejudicial agreement with the millers; it therefore held up disbursement of the second tranche of ESF V until the GOS and Grands Moulins de Dakar reached a specific agreement on future wheat procurement. ESF VI, signed in November 1988, required the GOS to cancel the unclear agreement with the millers and to negotiate, by the end of October 1989, a new agreement that would satisfy certain standards of transparency and equity. USAID held up release of an ESF tranche until an acceptable agreement was signed, which finally happened near the end of 1989.

This reform episode is open to criticism from several directions. First, it compromised the United States as reformer, by confusing the reform program with the advancement of U.S. commercial interests. This increases cynicism about free market reforms, among other unfortunate effects.

Second, it was in contradiction with the basic thrust of the reform program, in two respects. It sought to remove wheat import decisions from the private sector, and give them to a government entity, the CPSP. And it insisted on a reduction in the price of imported grains, flying in the face of the policy of increased self-sufficiency, which is the main objective of Senegal's cereals policy.

Finally, the action dragged the USAID mission into debate over technical details of grain milling and marketing, which was beyond its capacity to deal with effectively. This would have been productive if it had encouraged USAID to address some fundamental aspects of the wheat/flour problem. For example, the first question about this matter is: why should the local mills not have been happy to buy lower-cost American wheat? The possible answers are: political loyalties to French suppliers (dubious); transfer pricing benefits (maybe); indifference to input costs because of the way prices are set (probably); and unfavorable qualities of U.S. wheat, other than price. If the dialogue had been constructive, it might have been a doorway to in-depth study of these questions. In any case, if the millers' resistance was in part due to the fact that the price setting system discouraged import of low-cost wheat, the policy dialogue should have aimed at removing this feature, rather than pushing U.S. imports.

With respect to the nature of United States-Senegalese dialogue, there is certainly much joint donor-GOS discussion on policy in Senegal — in the Common Fund, in various sectoral meetings, and in the Ministry of Finance on the occasion of IMF missions. The United States requested regular meetings with the MOF to discuss policy matters, and these take place. However, it is not clear what is discussed in these meetings, or whether and how it advances the dialogue beyond what takes place in other forums.

Compliance with Conditionality

Heavy explicit conditionality is a characteristic of the ESF policy loans to Senegal; they are replete with "conditions precedent" (equivalent to "prior actions" of the IMF or the Bank's conditions of Board approval) and "covenants" (the Bank's "actions" or "conditions"). Tranching is standard, as it is with Bank policy credits now.

Annex 2 lists, under several major headings, the conditionalities that were attached to ESFs I-VI. Several features are evident. The conditions are loosely drawn; few are quantified or monitorable. Many are process requirements — to "study," audit," "prepare," "improve," and so forth. Out of 65 conditions, 15 were for studies or audits; two-thirds of the conditionalities in ESF V were requested studies — studies that USAID financed and largely arranged. Finally, many of the conditionalities are derived from parallel policy agreements of other donors, mainly the World Bank.

Table 5.6 gives the results of an analysis of GOS compliance with ESF conditionality. There are, however, limitations to the meaningfulness of this table. Many of the actions required are not related to policy changes — for example, writing letters, or agreeing to try to cut costs. This leads to some extremely charitable assessments — for example, the rice import privatization can be judged as partially successful because some of the required steps were taken even though the experiment was quickly abandoned. Although it is difficult to weight explicitly the importance of these conditions, it seems that those not implemented were often the most significant.

It should be noted that the trend in compliance seems downward. In ESF IV, only about half the conditions (excluding boilerplate) were fully satisfied. ESF V had a better record, but with many repeated conditions. And, in ESF VI, disbursement was actually suspended as a result of nonperformance on the wheat issue. The suspension was lifted only at the end of 1989. In any case, lack of compliance has almost never led to cancellation by any policy lender. It has occurred only once in Senegal since 1980 — the SAL I cancellation in 1983. (Several IMF agreements were dropped in the early 1980s, but none since 1985.)

Impact/Effectiveness

USAID has commissioned two independent reviews of its ESF program. The first, conducted by a two-man team of USAID economists and written up by a graduate student (Nancy Northrop, after whom the report is informally known) was done in 1985; it covered ESFs I-III. The second, covering ESFs IV and V, was done in 1989 by John H. Huber under a USAID contract with TvT Associates.

TABLE 5.6

COMPLIANCE WITH ESF CONDITIONALITIES

Program	Satisfied	Partially Satisfied	Delayed	Not Satisfied	Total Conditions
ESF I	7	0	1	4	12
ESF II /a	3	0	0	0	3
ESF III	10	0	1	1	12
ESF IV	12	4	2	5	23
ESF V	11	1	2	1	15
ESF VI /b	16	0	0	7	23
TOTAL	59	5	6	18	88

Sources: Figs. for ESFs I-V from Keener. Figs. for ESF VI from Huber.
Note: Table does not include "boiler plate" conditions. Conditions which no longer apply because they have been dropped by USAID are considered not to have been satisfied.

/a ESF II conditions do not include the condition to keep ESF grant money free from Senegalese taxes and fees as this is more of an administrative concern than an element of policy reform.

/b As of September 1989.

Both reviews are positive about sector accomplishments under the ESF program. These upbeat judgments are in marked contrast to the critical assessment, by William K. Jaeger, of USAID's two decades of project aid for agricultural and rural development between 1960 and the early 1980s.[5] Our summary of USAID's experience with its ESF program draws heavily on these reports and on the background paper prepared for this study by Sarah Keener.

The main reform objectives of the ESF program can be summarized as follows: privatizing rice imports and liberalizing its domestic marketing, phasing out the price compensation system, raising the efficiency of agroindustries and reducing their fiscal burden, increasing coarse grain cereal consumption and reducing grain imports, and maximizing GOS receipts from wheat imports. Huber's evaluation of the effectiveness of ESFs IV-VI concludes that although it has "not been completely successful in bringing about the desired GOS policy reform, . . . overall, the program has operated satisfactorily and achieved most of its policy reform objectives" (p. 2).

It is difficult to reconcile this conclusion with the results of the overall agricultural policy reform effort as outlined in Chapter Three:

- Rice import privatization has been abandoned, and there has been little progress in the liberalization of domestic distribution of rice;
- The centerpiece of cereals policy — a higher consumer price for rice — was abandoned in 1988, after a two-year trial;
- The *péréquation* or price compensation system has been modified only on the surface; it remains essentially unchanged; and
- The maximization of the *péréquation* (tax yield) from imported wheat — in other words, wheat purchases at lower cif prices — was realized for one year. A reference price system replaced competitive bidding in 1988, and in late 1989 it was no longer clear how many of the 1988 changes would endure. World wheat prices had risen: the April 1989 U.S. Gulf Port price for wheat was US$ 4.75 a bushel compared to an average 1988 price of US$ 3.95. U.S. millers apparently have lost interest in the Senegalese market; they are said to be no longer favorable to competitive bidding. In any case, the U.S. insistence that the benefits of lower import costs be passed on via reduced bread prices was in flagrant contradiction with Senegal's overall cereals policy.[6]

Although there was progress in strengthening the operation of the Caisse de Péréquation et de Stabilization des Prix and in raising the efficiency of agroindustries, this progress was limited. The CPSP

[5] W. Jaeger, "The Impact of Policy on African Agriculture: An Empirical Investigation," Williams College, December 1989, Draft.

[6] This of course doesn't mean it was a bad policy; in fact, it increased nutrition levels of the many bread consumers--a positive effect. But it is inconsistent with the self-sufficiency objective, which aims at substituting local for imported cereals, hence higher import prices.

story is worth detailed attention, since it clarifies also the small progress in two other main objectives — rice import liberalization and elimination of the *péréquation* arrangements. It also bears on problems of the groundnut sector, which the ESF program has consistently addressed.

The CPSP story. The CPSP is a parastatal with monopoly control over rice and vegetable oil importation and distribution. The CPSP is also responsible for administering the *péréquation* des prix, the system of producer-price supports, supposedly self-financed through cross-subsidies among crops, notably between rice operations and groundnuts. In the key groundnut sector, the major function of the CPSP has been to stabilize producer prices. The GOS established the farmgate price that the oil crushing firms had to pay. The CPSP in return guaranteed these firms a margin above their operation costs. If the international price for peanut oil rose above this level, the CPSP collected the profit generated by the oil crushing firms. If it fell below, the CPSP compensated the firms for their losses. These payments were to be financed through receipts produced from the proceeds of the other export crops or on imported consumer goods. Unfortunately, CPSP receipts during the early 1980s could not cover the costs of their compensatory payments to the oil crushing firms. Poor management and bad weather compounded the problems in GOS pricing policies, resulting in the CPSP's accumulation of massive debt.

Between 1983 and 1986, USAID, the Bank, and the French had all financed technical assistance designed to improve the CPSP's accounts and financial management, and to clarify its functions. As the donors came to understand the CPSP better, a consensus emerged that technical assistance alone would not be enough to achieve an acceptable degree of improvement in CPSP performance and to bring it into conformity with the objectives of the NAP. In 1985, a key additional reform was developed: the privatization of the CPSP's marketing functions, in particular its monopoly role in rice imports.

Liberalization of rice importing and distribution became a battleground: the GOS agreed to separate the CPSP's producer-price stabilization and rice-marketing operations, but accepted only partial privatization of the rice import trade. A year or so of cautious experimenting with partial privatization (1986-1987) revealed problems from which the GOS, and then USAID and the Bank, chose to retreat rather than attack again. Some of these problems had to do with the selection of approved importing firms, assuring the adequacy of import supply, and importer/GOS disagreement over who would bear inland transport costs. Others arose because the GOS strongly wanted to maintain its uniform-price policy throughout the country but was unwilling to subsidize private transport. Since private traders were unwilling to absorb these costs for delivery in the interior, real privatization of marketing was not possible. Furthermore, there was no real certainty, from a commercial and economic point of view, that import privatization would bring about advantages on which it could count, such as lower cost, more competitive pricing of import and domestic marketing and other services, and so forth. To the contrary, from the GOS point of view, rice supply reliability would be endangered, pricing subjected to greater uncertainty, and unnecessary political problems created. So the reform was abandoned and the CPSP role in rice marketing reverted to its pre-1986 status.

USAID felt it had "got burned" somewhat on rice liberalization, and by 1988 it had turned the effort over to the Bank. A 1988 USAID planning document stated that:

> The U.S. position is that we leave the World Bank out in front on the rice import privatization question. If they want to get themselves off the hook of what turned out to be a poorly implemented experiment, we support them. Alternatively, if they can figure

out a viable approach to rice importation, given all the conflicting aims of rice policy, we will follow them on that track.

But despite the failure of rice privatization, donor conditionality had contributed (in USAID's view) to marked improvements in CPSP finances and financial management. By 1989, USAID had abandoned its earlier aim of closing down the agency which, it believed, had been converted into a viable and healthy institution.

Part of the problem with liberalizing rice imports was the need to substitute a system of import taxes to replace CPSP profits in order to fund the groundnut producer-price subsidies. While the initial ESF efforts had succeeded in "clearing up the CPSP's arrears and turning it into an efficient operation," ESF IV failed to replace price compensation with fiscal measures (import duties that would protect local producers). Huber notes that the forthcoming World Bank/CCCE/EEC agricultural sector adjustment loan "contains no policy objective which aims at phasing out the price compensation system as such, only the goal of aligning periodically adjusted producer and consumer prices closer to world market prices." And, as we saw in Chapter Two, this remains a point of contention.

A key objective of ESFs IV-VI has been to raise the efficiency of agroindustries, much the largest of which is the government peanut-crushing combine, SONACOS. A second major target has been the sugar company, Compagnie Sucrière Sénégalaise (CSS), the country's largest industrial firm. Although private, CSS operated under a *convention spéciale*, which entitled it to subsidies on its operating costs; if these could be reduced, so could the subsidies.

The oil milling story. In oil milling, USAID has focused on six objectives, all intended to reduce and eventually to end the industry's dependence on subsidies while making sure the oil milling firms did not compensate for their loss of subsidies by accumulating more bank debts. The six objectives have been: improving seed management and eliminating subsidies for treating seed with fungicides, pushing SONACOS and SEIB to repay their debts to the banking system and to collect debts owed them from farmers for seed credit, ending of government subsidies to the crushing mills[7], liberalizing prices for domestic cooking oil in exchange for payment of taxes and duties owed by SONACOS and SEIB on imported vegetable oil and export duties owed on groundnut oil, making SONACOS a profitable entity, and completing an audit of SONACOS's operations.

On groundnut seeds, both ESF IV and SAL II aimed to get SONACOS out of the seed business (especially the "business" of distributing treated seeds without recovering the intended payments from farmers). USAID and other donors also wanted farmers to assume responsibility for their own seed requirements. SONACOS would be limited to maintenance of a security supply. Repayment of SONACOS's debt arrears has proved easy since ESF conditionality has specified that this is one of the things for which grant counterpart funds must be used (in effect USAID paid off the SONACOS debt, just as it had earlier paid off the CPSP debt and the IMF had paid off part of the GOS debts to the banking system — "wiping the slate clean" while trying to put in place reforms that would prevent a similar mess from developing again).

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[7] It was hoped the transfer of the subsidy responsibility to SONACOS would accomplish this objective.

In response to the donor effort to end the GOS subsidy to the oil mills (paid by the CPSP out of *péréquation* funds, or, in other words, profits on rice imports), the GOS simply removed the groundnut sector from the CPSP's responsibility. This left SONACOS responsible for financing, on its own, whatever subsidies to the farmers might be required by the difference between government-mandated producer prices and (lower) world vegetable oil prices. USAID and World Bank agreements both contained conditions designed to force the GOS into a more flexible system of producer prices — one that would be related to world prices — so that in years of low world prices, when subsidies might be necessary, their amount would still be manageable for the Treasury. But this donor pressure to get rid of price *péréquation* (on six key crops, not just groundnuts) and make all agricultural prices "stand on their own feet" has not succeeded.

A similar failure met the ESF IV attempt to make SONACOS pay the duties and taxes it owed the GOS on imported vegetable oil and exported peanut oil. That condition had to be suspended when the sharp fall in world peanut oil prices after 1986 dealt a severe blow to SONACOS's already-weak finances. Finally, USAID and the Bank both exerted pressure on SONACOS, throughout much of this six-year period, to improve the entity's accounts and managerial practices. The necessary external audits have been delayed, as has been the preparation of an "action plan" for operational improvements. Known inefficiencies — notably excess staff and crushing capacity — have continued because of GOS reluctance to take steps it had agreed to take when it signed ESF IV. Promised staffing cuts have not materialized, so the 1,000-person permanent staff and 700 temporaries remain — the same number as in 1985.

While the effort to restructure SONACOS's price environment and its operations has certainly been disappointing, it has not been a complete failure. Huber notes:

> SONACOS has reduced its processing and distribution losses from 7 to 2 percent since 1984. The number of collection points has been reduced from 1,700 to 750 and processing costs were reduced below CFAF 18/kg in the 1988/89 crop year compared to over CFAF 20/kg two years earlier.

Similar cost and physical targets are being established for SAED in rice production and for SODEFITEX in cotton, but those programs are not as far along. In Sugar, ESF V required an audit of CSS (the huge private firm that operates under a *convention spéciale*). A consultant study, completed in June 1987, convinced the GOS that the company could reduce its high production costs, justifying cancellation of the GOS's high annual subsidy. The latter was ended in November 1987. The GOS (and not the CSS) continues, however, to subsidize some major industrial users of CSS's high-priced sugar, to allow them to compete with imported products.

IV. CONCLUSIONS

One can certainly see improvements in agricultural policy and the performance of agricultural institutions to which USAID, as a major donor with sustained interest in the sector, has made significant contributions. A 1989 USAID internal document summarizes achievements as follows:

> Implementation of the New Agricultural Policy is now well under way in terms of liberalizing commodity and input markets, encouraging farmers to stand on their own, and paring back direct involvement by parastatals in marketing and processing activities. Restrictions on the movements of produce have been eliminated; the role of the Food Security Commission (CSA) in cereals price support has been minimized; fertilizer subsidies have been reduced; and the GOS has withdrawn from peanut seed distribution. USAID assisted the GOS in developing the New Agricultural Policy and has actively encouraged these changes. . . . Major producer subsidies on peanuts, cotton, and domestically-produced rice are still in force. However, fixed prices on other agricultural crops and government monopolies on trade of other crops have been eliminated.

The list could be lengthened. A number of useful studies have been financed such as an informal sector inventory, and studies on tax policy and private sector potentials. The CPSP is better managed, and the RDAs are cutting back on their activities. The dialogue has become more structured and the USAID mission has increased its capacity in policy analysis. The financial contribution of ESF was a substantial factor in allowing Senegal to meet IMF performance criteria or benchmarks.

All of this and more can be put on the positive side of the ledger. But it is nonetheless hard to agree with the conclusion of the recent ESF evaluation — that the program "has achieved most of its policy reform objectives." Three of the major objectives of the ESF program have not been achieved — rice import liberalization, a consumer price for rice that would be an incentive for import substitution, and abandonment of *péréquation* — and the status of a fourth objective, the wheat import issue, is uncertain. As noted throughout this chapter and more fully in Chapter Three, the record of achievement in agricultural policy change is patchy.

CHAPTER SIX

SOCIOPOLITICAL DIMENSIONS OF ADJUSTMENT

I. INTRODUCTION

In Senegal, as in developing countries generally, concern over social aspects of the adjustment process grew more insistent as it became apparent that "adjustment" was going to take longer than expected. Concern also emerged over the hardships associated with adjustment-related policy reforms and particularly their impact on the poor. In recent years this has become the most discussed aspect of adjustment programs worldwide.

In this discussion, two main positions have been staked out. The first, championed by the United Nations International Children's Fund (UNICEF) and widely shared in the donor community, is that the costs of structural adjustment programs have fallen most heavily on social groups with the lowest incomes and the fewest assets. According to this view, deflationary effects associated with stabilization programs hurt unskilled wage earners and informal sector populations more than businessmen or established civil servants. Cuts in social sector spending hurt the poor, while middle class groups are little touched.

The second position, set out mainly in World Bank and IMF publications, has several central themes. One stresses the need for agnosticism given the brevity of most adjustment experiences, the lack of in-depth case studies, and the difficulty of disentangling the effects of policy changes from exogenous factors influencing economic performance. According to this set of ideas, the costs attributed to the adjustment program are often due to recession and to cutbacks in fiscal capacity and economic activity that would be inevitable in any case. Related to this, the status of the poor with a formal adjustment program should be assessed against the standard of their likely status without adjustment.

Despite the lack of hard information about the pre-adjustment condition of the poor and about what has actually happened in the 1980s, there are, according to this argument, strong a priori reasons to expect that many of the standard market-oriented adjustment measures either help the poor or hurt the rich more than the poor. Liberalization of agricultural markets, reform of parapublic enterprises, and devaluation or equivalent exchange rate measures all tend, in the poorest countries, to help rural people who are the bulk of the poor. Although some government regulations and subsidy arrangements protect the poor, most do little more than create rents that are collected by the rich and well placed. Thus, deregulation is usually equity enhancing. The same is true for reduction of poorly targeted subsidies. Finally, faster economic growth, which is supposed to result from adjustment measures, is the best way to reduce absolute poverty.

It is beyond the scope of this chapter to address all these issues related to the impact of the policy reforms of the 1980s on poverty in Senegal. We focus instead on two more limited aspects of the social dimensions debate: the behavior of public spending on education and health over the course of the adjustment experience in Senegal — that is, in the 1980s — and its effect on health and education status; and the impact of adjustment via policies on agricultural prices, wages, and employment, on farmers and formal sector wage-earners. We set the stage for discussion of these issues by considering at the outset two other questions. First, when and how did formal adjustment programs explicitly take into account social factors? And second, what are the different socioeconomic groups that have affected the adjustment process or been affected by it?

II. THE SOCIAL DIMENSIONS FACTOR IN SENEGAL'S ADJUSTMENT PROGRAM

Until the mid-1980s, economic stabilization/adjustment efforts in Senegal did not explicitly consider social questions, especially effects of policy reforms on the poor. The World Bank's First Parapublic Sector Reform Project (1977) — the initial step in structural reform in Senegal — focused on strengthening central controls over parapublic entities. Discussion of employment effects is hard to find in the documentary record. The first SAL (1980) also made no mention of social impacts.

It was only in 1985 that the dialogue surrounding the adjustment program began to take account of social factors. Initially, the issue arose not in the context of direct poverty reduction or protection of vulnerable groups but as part of a concern to "protect the long-term bases of development: human potential and basic infrastructure." A section of the Senegal government's *Programme d'Ajustement à Moyen et Long Terme 1985-92* (PAML) developed this theme, calling for new educational and health policies as well as for better physical infrastructure. It also proposed new policies to encourage employment.

By 1986, preoccupation with social costs of adjustment had become part of the world-wide dialogue on development. All World Bank adjustment loans after 1986 contain a section on social dimensions. Senegal's SAL III, signed in 1986, for example, addresses not only education and health sector needs and employment concerns, but also analyzes likely income distribution effects of key elements in the program. Thus, raising normal official producer prices for major agricultural commodities, it argues, will tend to raise rural incomes. This will raise rural welfare and should shift rural-urban terms of trade in favor of the farm sector, thereby slowing the rural exodus. Also, the adjustment-induced economic growth should raise employment and incomes of the poor, though this will take time. As for specific projects or programs, the SAL III President's Report states that "there is... insufficient basis to identify and design operational programs and projects aimed at alleviating the transitional adverse impact of structural adjustment on vulnerable groups."

Whatever the gaps in knowledge about who Senegal's poor are and how to protect them, events outside and inside Senegal pushed both donors and Senegalese political leaders toward greater concern with social aspects of adjustment. On the world stage, by the mid-1980s, stabilization/adjustment programs were under broad and heavy attack. In addition to criticisms by UNICEF, questions have been raised by NGOs, bilateral donors, and international agencies such as the Economic Commission for Africa (ECA). At Khartoum, in January 1988, World Bank representatives did public mea culpas, admitting to neglect of social costs of adjustment. Inside Senegal, ongoing concern over unemployment was vastly magnified by the political events of February 1988, which appeared to threaten Senegal's social and political order.

It is, therefore, no surprise that in the preparatory documents for SAL IV, social issues figure prominently. The World Bank held a seminar in Dakar in February 1989 covering these questions, while one of the four commissions that worked on the Letter of Development Policy (LDP) in 1989 was responsible for social issues. The LDP of May 1989 calls for "policies to reduce the short-term impact of economic policy on the most disfavored social groups, notably wage earners of the public and private sector." Proposals are set out on employment promotion, population policy, and on health, education and social development.

The increasingly important place given to social dimensions is indicated by a new World Bank project, approved in August 1989, for a US$ 20 million program of urban public works projects intended principally to provide jobs for unemployed urban residents.

III. THE SOCIOPOLITICAL DYNAMICS OF ECONOMIC REFORM[1]

All reform programs have friends and enemies, and the outcome of the interaction of these interest groups helps determine whether and what kind of reforms are adopted and how they are implemented. In most of the developing countries, many key actors in the decisionmaking system are foreign to the country concerned; the World Bank and the IMF obviously play a major role, as do bilaterals with strong interests in the adjusting country — France in Senegal, for example. The interplay of the external actors is an interesting and important subject. On basic issues like the level of protection for local cereals and the industrial import liberalization programs, donors in Senegal differed vigorously among themselves and the working out of these differences helps explain what happened in rice policy and the shifting policies on industrial reform.

But the main issue here is the local political economy — how the various Senegalese interests acted and reacted in the framing of economic policy.

An analysis of the social dynamics of adjustment in Senegal must take into account certain special features of the social structure that prevail there as in many African countries. As Frey-Nakonz notes: "The dominant principal of social structure in Senegal is the vertical alliance," not interest groups based on common economic interests. "Clientalism" prevails, resting on reciprocity in the exchange of services. This system is translated into politics by "clients" working for a leader (for example, by recruiting new followers) in expectation of receiving a share of the benefits the leader gains by his or her position. Any influential person can expect to have a number of such clients, each in turn developing his or her own clientele, thereby creating a vertical hierarchy of sometimes disunited factions. These clientele groupings or "clans" are the fundamental political units.

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[1] This section is based upon a background paper prepared for this report by Regula Frey-Nakonz, "Rapport de Mission, Evaluation des Programmes d'Ajustement Structurel au Sénégal, Dimension Sociale," Federal Office of External Economic Affairs, Berne, September 1989.

This structure has important implications for the political process. The clan is determined more by social relations than by ideology or a shared political conception. Thus, the political process it spawns cannot be understood in terms of class conflict or interest group politics as there tends to be more conflict within clans than between them. Instead, personal relationships take on the most importance: personal connections tend to be preferred to institutional channels for influencing decisions and important decisions are often made "in the corridors." The many factions within a clan will each pursue their particular agenda, preventing the clan from acting as a unitary actor.

Clientele loyalties explain some of the economic behavior, such as lending and loan recovery behavior of major banks, that is now being addressed under the structural adjustment reforms. The slow pace of reform of the public and parapublic sectors can be explained to some extent by the fact that Senegalese politicians owe more loyalty to their clientele than to the civic polity. Because their political influence depends upon their ability to provide rewards to their clientele, primarily jobs and access to financial resources, they are unwilling and often politically unable to implement policies that would adversely affect this ability.

Frey-Nakonz identifies six economically based interest groups that play a role in defining the adjustment program. The administration — more broadly the *fonctionnaires* or the bureaucracy — is the primary domestic actor. In addition, a number of groups act to influence the decisions of the government, particularly employer organizations, trade unions, and farmer organizations. Less organized groups, such as the "marginalized urban population" (unemployed or in the informal sector) and women, have had less opportunity for input and have thus played a somewhat more passive role in the process. It should be emphasized that these six groupings do not denote classes or unified interest groups; rather they serve here as organizational devices for a discussion of sociopolitical developments. References to "classes" should be loosely interpreted.

It is important to observe at the outset that the adjustment programs have created a higher level of political awareness among the population at large. Almost for the first time in Senegal, concrete issues of economic policy are now widely discussed in the public press and on television. The SALs, and the market-oriented reform strategies they embody, have sparked debate on the substance of policy to a degree not previously known. Employer groups have been politically mobilized in response to the changes in the trade regime and industrial policies. Unions have opposed some aspects of the reform program, particularly in reforming the Labor Code and in the education and health sectors.

The Bureaucracy (*Fonctionnaires*)

The administrative or bureaucratic class (*fonctionnaires*) has been given difficult, often contradictory tasks in the adjustment precess. It is responsible for the negotiation and implementation of the adjustment program, the central elements of which (liberalization, deregulation, privatization, job freezes, or retrenchment in the public sector) are aimed at cutting the roots of bureaucratic influence — the capacity to distribute patronage in the form of jobs and access to "rents." Yet without continued aid flows, which require acceptance of donor conditionalities, jobs and money will shrink anyway.

The free-market-oriented policy reforms of the adjustment program are, moreover, accepted without intellectual conviction. Large numbers of the bureaucratic class, probably the majority, believe that most of the reform policies are technically inappropriate for Senegal; they will not bring faster economic growth on a sustained basis.

The *fonctionnaires* who negotiate and implement the programs have to win donor support while defending the "general interest" of Senegal. They then have to sell donor conditionalities to the public, which involves accommodating diverse sectional interests, while they try to retain the public's political support. In this process, modifications in agreed conditions may often be required.

The nature of the contradictions and dilemmas faced by the administration can be summarized in its four principal tasks. The administration and the *fonctionnaires* must (1) win policy-based loans without sacrificing Senegal's general interest; (2) accept and implement a set of policies many of which they believe are misguided; (3) sell this program they only half-heartedly believe in to the various parochial groups whose interests are at stake, and they must do this without sacrificing the general interest and without fatal political consequences; and (4) implement a program that, if successful, will shrink their sources of influence, at least in the short run.

These factors help explain why implementation of many reform policies is slow, why slippage is frequent, and why Senegalese "ownership" of the reform program remains fragile and uncertain.

One of the most important effects of the structural adjustment process has been the shifting of some political authority from *fonctionnaires* to other groups. Political forces play an obvious role. For example, the events surrounding the elections of February 1988 and the cries for change (*sopi*) that were strongly articulated during the campaign gave new political presence to the urban-based opposition parties. That political actors have become more visible and influential is also illustrated by the experience with labor market reform. The National Assembly refused to approve an administration proposal (agreed to with the Bank as part of SAL II) to allow greater employer flexibility in hiring and firing. And the beginnings of disengagement by rural development agencies has resulted in some transfer of authority from these RDAs to farmer associations and NGOs. To some extent, too, the newly emergent (still very small) private sector has become more significant, in the Fleuve region, for example.

There has also occurred an internal redistribution of bureaucratic influence; the World Bank in particular, but donors generally, have created over the years a myriad of coordinating bodies that have diverted influence and power from established ministries and other agencies. The creation of the Comité de Suivi de l'Ajustement Structurel has, for example, played a major role in policy coordination, reducing the role (real or potential) of the Ministry of Plan and Cooperation. The strengthening of the Délégation à la Réforme du Secteur Parapublic has reduced the influence of the various core supervisory agencies in government, and also that of the Ministères des Tutelles. The Ministère du Développement Rural has long seen its authority sapped by donor-supported rural development agencies.

Employer Groups

Employer groups have displayed new vigor since 1986. Senegal's employers are grouped into 36 *syndicats* or employer associations. Of these, the 13 most important are part of the Conseil National du Patronat (CNP), which was formed in 1986, shortly after the announcement of the New Industrial

Policy (NIP). It has since become the single most representative and articulate defender of employer interests.

CNP spokesmen decry both the process and extent of implementation of the industrial policy reforms introduced in 1986. They say the government failed to consult them when the NIP was being developed; they were told about it ex post, by a technician from UNIDO who was the chief spokesman at a meeting announcing the reform program. CNP spokesmen also criticize the excessively rapid introduction of import liberalization without the promised parallel actions: increasing credit availability, liberalizing the labor market, preventing smuggling, and reducing energy costs.

By late 1987, the CNP was presenting memoranda to the government and engaging in formal dialogue with ministries on these issues. In January 1988 they participated in a seminar bringing together government, employers, and trade unions to discuss the NIP. A similar seminar was held later in the year to discuss the draft LDP for SAL IV.

The complaints of the organized employers were echoed by many other actors, both in government and among the donors — notably the French aid authorities. The result was the revision on industrial reform in August 1989, which raised the level of tariff protection close to prereform levels. In effect, the CNP led a victorious campaign to rescind much of the NIP.

The NIP has led to one substantial structural change with political implications: the growth and diversification of the trader community. Sharp reductions in the cost of obtaining import licenses (from 5-10 million CFAF to less than 15,000 CFAF), led to a large increase in the number of licensed traders — from 3,191 in April 1987 to 8,583 in May 1989. Not much is known about who these new traders are, nor about the nature of the competition between informal, small-scale and large-scale trading sectors. But there is little doubt that significant changes have occurred. For example, members of the Mouride community from the Baol region, who are known as "Baol Baol," have replaced Lebanese importers in some lines such as electronic equipment, clothing, and footwear.

Trade Unions

It is hard to know the extent to which the formal trade union structure can be taken to represent wage earner interests. Despite their long history (a 1947 railroad strike was one of the milestones of the struggle for independence), the trade unions have always been highly politicized, continually splintered, supported financially not by membership dues but by outside aid and political parties. They have been led by a few full-time trade unionists and are little present on the shop floor. Since independence, the main unions have become arms of the ruling party, and have been given formal representation in government organs. The Confédération Nationale des Travailleurs Sénégalais (CNTS), the main union federation with 59 constituent unions and claimed membership of 70,000, has the right to name two cabinet ministers, the Vice-President of the National Assembly, and ten deputies of the Parti Socialiste. The CNTS is also represented in the main social and economic commissions and on the boards of state enterprises.

The close formal ties between the CNTS and the ruling Parti Socialiste commit members to a policy of "responsible participation" in government. Such a relationship limits the freedom of action of the CNTS and sometimes generates internal criticisms that union leaders have sold out in return for personal perks. However, government control of the CNTS has not always prevented the federation from adopting independent and sometimes anti-reform positions. Following a *Journée de Réflexion* in August 1986, the CNTS issued a statement rejecting the policy of disengagement of the state. It proposed a policy of transferring state-owned enterprises to worker organizations, a proposal which appears to have fallen on deaf ears. The CNTS urges pro-employment policies, and has fought against liberalization of Labor Code provisions on hiring and firing. Its influence appears o have been strong in the National Assembly decision in 1987 to reject government's proposed changes in the Labor Code — changes that were a condition of release of the second tranche of SAL II. (The tranche was released anyway.). And in 1989 the assembly finally did approve the changes allowing employers to hire workers on temporary contracts for more than six months, which had been the previous limit.

The non-CNTS unions active among teachers and health workers have also been critical of the adjustment program and aggressive in strike actions. The Post-Secondary Teachers' Union (SAES or Syndicat Autonome des Enseignants du Supérieur) broke away in 1985 from the General Teachers Union (Syndicat Unique et Démocratique des Enseignants du Sénégal, SUDES) that had been autonomous since 1976. The SAES has led the fight against such World Bank-supported reforms in the education sector as double shifts of primary school classes, mixed grade classrooms, and budget shifts favoring primary education.

In its first newsletter, *Documents*, in November 1985, SAES critically analyzed the World Bank education policies for Senegal as outlined in its November 1984 Country Economic Memorandum. The SAES wrote disapprovingly of improved selection for entry into secondary schools, privatization of education and training, and use of teachers with less credentials. It especially attacked the low pay and poor conditions of teachers. In February 1986 it organized a rally on its demands for change; its 19 demands focus on improvements in salary and working conditions.

All through 1987, negotiations were held with the Rectorate of the University, with the Presidency, and with the Education Ministry. Since no results were forthcoming, the SAES held a protest strike in January 1988. The strike was supported by students and became a part of the larger postelectoral protests in February that led to the declaration of a State of Emergency.

At the beginning of 1989, SAES joined with another independent teachers union to lead a 70-day strike which was only settled at the price of significant wage concessions (a 40 percent rise in civil service indices via a special research and training supplement); other fringes were also raised, and working conditions improved. Joint consultation on educational reforms was also stipulated and government agreed to regular biannual bargaining meetings with SAES.

In the health sector, SUTSAS — the Syndicat Uni des Travailleurs de Santé et de l'Action Sociale — was formed in 1981 and now claims 3,000-5,000 members. This autonomous union has a larger membership than that of the public health workers union which is part of CNTS.

SUTSAS struck in 1984 and again, for three weeks, in 1985. In July 1988 it led a series of rolling strikes. The falling share of budget resources allocated to health was a constant theme in these strikes. SUTSAS did not, however, attack the health elements of the adjustment program at this time, but only the SAL policies in general. Its preoccupations were that budget management was not evenhanded, and that some donor programs (notably USAID's family planning program) were poorly designed or implemented, salaries were falling in real terms, and health infrastructure deteriorating.

In November 1988, government agreed to a number of important SUTSAS demands — on fringe benefits, promotions, training, materials, supplies — which will impact significantly on the budget. The union also won agreement to reinstate consultative commissions for the management of the health sector.

Farmer Organizations

The final group of actors whose role seems to be in process of significant change is the organized peasantry. There has been considerable growth in the number and role of farmer organizations. Some of this is the result of direct policy intervention. The 1984 New Agricultural Policy calls for the "responsibilization" of rural society, and donors and NGOs have been intensifying efforts to reinvigorate cooperatives and other associations. The Bank and French aid agency have, since the early 1980s, pushed hard for decentralization of the cooperative movement by the encouragement of smaller *sections villageoises* and economic interest groups (*groupements d'intérêt économique*). SOFIDETEX, the rural development agency (RDA) that promotes cotton and cereals in southeastern Senegal, has concentrated on the formation of Grassroots Producers Associations (*associations des producteurs de base*) that will take over marketing, input supply, and other functions at the village level. By early 1989, several hundred such organizations existed, compared to a handful only five years earlier.

In addition to the direct emergence of new farmer organizations, other factors have been at work indirectly. Thus the opening up of the Senegal River Valley and the beginnings of disengagement of SAED, the RDA for that region, have given rise to a burst of new private sector activity and to an increased NGO presence as well. The multitude of NGOs have encouraged the formation of cereals banks, village shops, and similar activities run by farmer organizations, encouraging an expansion of their role.

The future role of farmer organizations has indeed become a major issue in the whole program of liberalization/disengagement of the state, though it is not much discussed. Many Senegalese and some foreign aid representatives believe that full liberalization of marketing is premature. They believe that the balance of power in rural areas is unfavorable to small farmers and that thus farmers should have a chance to organize in the defense of their own interests before market forces are allowed fuller sway.

The favored status given to farmer organizations is one reason why privatization of rural services has made only slow progress in most of Senegal. Disengagement of the state (or privatization itself) is defined as transferring activities to any of the variety of farmer organizations and nurturing these organizations by subsidies or regulatory protection. But often these farmer organizations are too weak to assume their new functions.

We have said nothing about other rural social groups whose role is often underscored — the religious brotherhoods. Frey-Nakonz, in her background paper, notes that the brotherhoods (Mourides and Tidjanis, notably) are not really well-defined interest groups. They are constellations of groups with particular interests that reflect varied economic or class composition. The political alignments of these brotherhoods are not simple. M. Diouf, the chief of state (a member of the Tidjani brotherhood), has close relations with the Khalife-General of the Mourides. The Mourides strongly supported the Tidjani Diouf in the election of 1988.

Nor is it clear that the brotherhoods influence economic policy in some consistent direction. It used to be said in Senegal that the government's resistance to reductions in input subsidies reflected brotherhood influence. But subsidies are gone (at least as of 1989). And the GOS was forced to cut the producer price of groundnuts in 1988 because of low world groundnut oil prices. The brotherhoods are certainly politically influential, but the extent and direction of their impact is not clear. And the adjustment program, to the extent that it reduces rents generated by administered prices and other interventions, will tend to reduce the influence of these and other pressure groups.

Low Income Urban Populations

There has been much concern that politically unorganized urban populations, especially informal sector and low income groups, will bear the highest costs of the adjustment process. Higher prices for basic necessities, increasing competition for a decreasing number of jobs, cuts in social spending, and falling real wages could all contribute to a declining standard of living. The extent to which any of these effects have been felt is unclear because of a lack of basic data; the insulation of the lower income urban population from some policies (for example, decreases in the real value of the minimum wage have little direct effect on workers in the informal sector); and the imperfect implementation of other policies. For example, real food prices declined rather than rose throughout most of the 1980s and health and education status improved on aggregate even as real expenditures fell. The cost of bread, an important staple of the urban poor, fell steadily and sharply over the decade; rice prices were also lower relative to the general level of prices.

Some impact has nonetheless clearly been felt and as a result these marginalized groups have begun to find their voice. A new willingness to protest was shown during the violent demonstrations that followed the 1988 elections. Cries of "sopi" (change) were met by the government with food price cuts and other concessions.

A more subtle effect has also been noted. As the state and the modern sector of the economy have become less dependable as sources of support, traditional political structures (often of religious or ethnic origin) have gained in importance. These structures can guarantee social and economic support, even if at a low level. The resulting economy (variously described as "underground," "informal," or "popular") relies mainly on service provision, and especially on commerce with its potential for almost infinite division of tasks. A high degree of division of labor ensures that revenues from this informal sector commerce are well distributed while competition ensures that markups are low — a benefit to consumers.

Women

There is little data available to identify differential economic impacts of adjustment on women. Women are affected by structural adjustment at a variety of levels. To the extent that they are members of the salaried class, they suffer from reductions in real wages and layoffs. Because women tend to be less educated than their male peers, it is feared that they may be among the first to be laid off, although no statistics exist on this issue. There is some evidence that once laid off, women in Senegal have greater difficulty than men in finding new formal-sector jobs.

Declining incomes have left both urban and rural women with new demands on their time and energy. Frequently, the wives of unemployed urban workers have ensured the survival of their families by becoming traders. Commerce is considered a low-caste endeavor among men but is acceptable for women of even the higher classes. In rural areas, there has been a notable increase in off-farm activities by women. Among the poorest classes, the probable decline in job opportunities has led some males to enter sectors traditionally left to women, such as the sale of prepared food. This new competition has had adverse effects of its own on women.

IV. THE EFFECTS OF THE ADJUSTMENT PROGRAM ON EDUCATION AND HEALTH

It is widely feared, and sometimes strongly asserted, that stabilization/adjustment programs of the 1980s have had particularly damaging effects on the poor by causing cuts in public spending on education and health. These services are particularly crucial to the poor; without access to education and health care, their chances for climbing out of poverty are diminished. Spending cuts have certainly occurred in some countries.[2] But it is not clear how general a phenomenon this has been, nor is the meaning of "cuts" always made clear. These questions are particularly important in Senegal because, before its adoption of formal adjustment programs in the 1980s, the country trailed far behind comparable developing countries in education and health status.

In the paragraphs that follow we analyze how the education and health sectors have fared in Senegal during the past decade. The analysis draws heavily on the background paper prepared for this report by Gerard Chambas and on recent work by Mark Gallagher and Osita Ogbu of the World Bank; all data and tables are derived from the work of these authors. We look first at various measures of input changes, both financial (shares of government expenditure and of national income that are allocated to education and health and changes in absolute levels of government spending on these services) and physical (schools, teachers, clinics, and medicines). We then examine available data on education and health status — measures of "quasi-outputs" such as enrollment ratios as well as conventional measures such as changes in life expectancy and morbidity data. It turns out that in Senegal health and education status has improved in the past 10 years despite stagnant and then declining real per capita public expenditures. Available information does not allow us to explain this result satisfactorily, though we explore some possible reasons.

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[2] See C.A. Cornia, R. Jolly and F. Stewart, *Adjustment With a Human Face; Protecting the Vulnerable and Promoting Growth*, UNICEF, 1987. See also, UNICEF, *The State of the World's Children*, 1989.

Data Limitations

The budget data at hand suffer from numerous deficiencies, of which the following are the main examples:

- They are estimates and not actuals. This is probably not a serious source of error as actuals are usually very close to estimates for the operating budget;

- Capital expenditure estimates tend to be particularly unreliable and until recently did not figure in the national budget, because most capital expenditure is financed by foreign grants or quasi-grants; and

- The data are not based on a functional and economic classification of budget expenditures, but on budget allocations to relevant ministries. Some major items of expenditure are thereby excluded. For example, the military budget finances the Engineering School at Thies, a major facility, as well as many medical services. These expenditures are not included in our estimates of education and health expenditures.

Changes in Shares of the Operating Budget and GDP

Table 6.1 traces the evolution of spending on education and health during the 1980s. The following main points emerge concerning shares of spending:

- Educational spending has been "highly protected," as some writers have used that term.[3] In fact, its share of current expenditures actually rose during the early years of the adjustment program, peaking at 24.1 percent in 1983-1984. While education's share declined to 22.8 percent in 1988-1989, it remains above the trend in the 1970s;

- The share of spending on health has declined slightly over the 1980s — from an average of 5.6 percent in 1980-1982 to about 5.1 percent in 1987-1989. This decline comes on top of a substantial decline in the 1970s. The health budget share has thus fallen to its lowest level in the last 20 years; and

- As a share of GDP, educational expenditures have fallen since 1984 after increasing in the 1970s and holding constant between 1977 and 1983. Health expenditures as a share of GDP have tended slightly downward in the 1980s; the general trend has been downward since the early 1970s. The extent of decline was greater in the preadjustment decade than in the 1980s.

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[3] Cf. N. Hicks and A. Kubisch, "Cutting Government Expenditures in LDCs," *Finance and Development*, 21/3, pp. 37-39; and Anderson, Jaramillo, and Stewart, Ch. 3, in Cornia et al., ibid.

TABLE 6.1

Budget Expenditures on Health and Education,
(millions of 1970 CFAF)

	1974-5	1975-6	1976-7	1977-8	1978-9	1979-80	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9
EDUCATION															
Expenditure															
Current	-	-	-	11,782	-	13,092	13,868	12,868	13,854	14,134	14,088	12,883	12,483	-	-
Capital	-	-	-	883	1,228	1,800	881	738	846	976	447	108	109	-	-
Total	-	-	-	12,878	-	14,833	13,764	13,387	14,800	15,110	14,814	12,880	12,880	-	-
Current/Total Operating Budget	20.7%	17.8%	20.8%	21.8%	20.8%	22.3%	23.8%	23.7%	23.8%	24.1%	23.8%	22.8%	22.8%	22.2%	22.9
Total/GDP	-	-	-	4.2%	-	4.8%	4.4%	4.0%	4.1%	4.2%	4.1%	3.8%	3.8%	3.4%	3.4
Total/capita (1970 CFAF)	-	-	-	2,331	-	2,846	2,300	2,202	2,338	2,346	2,108	1,803	1,790	1,914	-
Allocation															
Salaries															
Teachers	-	-	-	83.8%	-	-	58.8%	61.0%	66.6%	67.1%	70.1%	70.1%	72.8%	-	-
Non-Teaching Staff	-	-	-	3.3%	-	-	7.1%	6.9%	4.8%	4.1%	4.4%	3.4%	2.7%	-	-
Total	-	-	-	87.0%	-	65.1%	66.1%	67.9%	71.2%	71.5%	73.8%	74.2%	74.4%	-	-
Supplies	-	-	-	8.8%	-	6.2%	7.6%	6.4%	5.7%	5.1%	4.8%	4.7%	4.7%	-	-
Level															
Primary	-	-	-	38.7%	-	32.8%	37.5%	40.7%	43.1%	39.0%	47.4%	46.7%	46.5%	-	-
Secondary	-		-	24.4%	-	22.1%	-	-	24.4%	25.8%	23.0%	25.8%	26.8%	-	-
Higher	-	-	-	20.4%	-	20.5%	23.5%	23.0%	20.8%	18.7%	18.1%	18.7%	-	-	-
Vocational	-	-	-	7.7%	-	7.8%	8.0%	8.8%	5.8%	3.2%	4.1%	4.2%	4.1%	-	-
Other	-	-	-	8.8%	-	17.0%	31.0%	30.5%	5.6%	10.3%	7.4%	5.5%	28.7%	-	-
HEALTH															
Expenditure															
Current	3,325	4,8	,677	4,388	4,862	4,132	3,588	3,213	3,314	2,820	2,728	2,283	2,783	-	-
Capital	119	1,00	1,398	1,020	324	252	304	1,183	617	1,850	1,855	841	321	-	-
Total	3,444	5,87	8,273	5,408	4,888	4,384	3,883	4,378	3,830	4,880	4,384	2,824	3,283	-	-
Current/Total Operating Budget	7.5%	8.0%	8.8%	8.0%	8.9%	8.1%	8.3%	8.8%	8.8%	4.8%	8.1%	8.1%	8.3%	8.1%	4.8
Total/GDP	1.3%	2.0%	1.7%	1.8%	1.6%	1.4%	1.3%	1.3%	1.1%	1.4%	1.2%	0.9%	0.8%	0.8%	0.8
Total/capita (1970 CFAF)	688	1,141	897	885	882	763	674	719	828	757	858	429	468	427	-
Allocation															
Salaries	78.0%	84.7%	75.9%	78.1%	95.7%	88.8%	88.9%	87.1%	88.6%	87.1%	83.4%	81.1%	88.3%	-	-
Medications & Supplies	2.7%	1.7%	4.1%	3.6%	3.0%	2.4%	2.5%	2.9%	3.1%	3.2%	3.1%	3.1%	2.4%	-	-
Implicit GDP Deflator 1970=100	138.72	151.14	155.88	162.81	173.88	188.88	207.84	228.48	248.42	273.11	308.48	367.8	377.8	368.8	-

Sources: M. Gallagher and O. Ogbu, Annex III of "Public Expenditures, Resource Use and the Social Sectors in Sub-Saharan Africa", World Bank, November 1989.

G. Chambas, "Les Consequences Sociales de l'Ajustement: Le Cas de l'Education et de la Sante," report prepared for Elliot Berg Associates, November 1988.

Changes in Levels and Composition of Public Expenditure

We use real expenditures per capita as the best summary indicator of the evolution of real resources allocated to education and health. Table 6.1 shows that real spending on education thus defined was fairly steady from 1980 through 1984 but has since fallen dramatically to a level 25 percent below its 1984 level.

With respect to health, the trend in real spending is similar — holding steady from 1980 through 1984 and then falling off rapidly. The difference is that this fall comes on top of the declines in real per capita spending seen in the 1970s. By the end of the 1980s, per capita spending on health care was more than 40 percent below its level in 1979-1981 which in turn was some 30 percent below its level in 1970.

There have also been significant shifts in the composition of the education and health budgets. In education, the expansion of the teaching staff during a period of budget constraints has caused salary costs to grow from 65 percent of recurrent expenditures in 1980 to 74 percent in 1987. Nonteaching staff salaries have declined as Ministry of Education staff have been redeployed as teachers. Over the same period, there has been some shift in the allocation of funding between primary, secondary, vocational, and higher education. Primary education's share has risen from roughly 36 percent at the beginning of the decade to 46 percent in 1986-1987. The increase came out of the budgets of higher and vocational education, whose shares fell from 20 and 8 percent respectively in 1980 to 19 and 4 percent in 1986. Secondary education has held its share at roughly 25 percent. The share of recurrent expenditures going to supplies, including books, has fallen from 8.2 percent to 4.7 percent over the same period.

In the health sector, the emphasis on the construction of new health facilities has been reflected in the growing size of the capital budget. Recurrent expenditures are dominated by salaries, which accounted for 65-69 percent of the total through the 1980s. The budget for medications and routine supplies has been fixed in nominal terms since 1983 and represented 2.4 percent of recurrent expenditures in 1987.

Changes in Levels of Physical Inputs

Senegal's supply of educational inputs expanded rapidly in the 1980s (Table 6.2):

- Between 1980 and 1987, teaching personnel increased by 57 percent overall while the number of rural primary school teachers grew by a stunning 86 percent; and

- Over the same period, the number of public schools increased by 55 percent to over 2,300. Private secondary schools also increased rapidly and now comprise almost one-half of the total. Of new classrooms built in rural areas, 67 percent were provided entirely by local communities.

Indicators for the health sector are presented in Table 6.3 and show the following:

- The number of hospitals, health centers, and rural health facilities expanded strongly through the 1980s, while the number of hospital beds per person declined. Many new health facilities offer only rudimentary service as they lack personnel, equipment, and supplies; and

- Although the number of public physicians and nurses has declined by more than 30 percent since 1980, the number of nurses operating in rural areas has increased by 43 percent. An increasing number of midwives also are operating outside of the Dakar area.

Changes in Outputs and Quasi-Outputs: Education and Health Status

To assess the impact of reductions in real spending and physical inputs we want to know how education and health "outputs" (indicators of health and education status) have been affected. In education, we look at information on enrollment ratios, graduates, and the quality of education provided. In health we should look at changes in life expectancy, at infant mortality, and at indicators of morbidity.

Enrollment figures reflect the expansion of educational opportunities that has occurred as Senegal pursues its goal of universal primary education by the year 2000. Overall enrollment increased by almost half between 1980 and 1987, to 765,000, with female enrollment growing by an even faster 56 percent. Currently, 56 percent of the primary age cohort attends school, up from 46 percent in 1980. Regional differences have narrowed markedly (see Table 6.4). Secondary school enrollment has increased from 11 to 13 percent of the 12-17 year old cohort, while university enrollment has nearly doubled.

The increase in students has been matched by a parallel increase in the number of teachers, thereby preserving the student-teacher ratio. Efforts have been made to maintain teacher quality as their number has grown. Regulations introduced in 1977 require new teachers in the public school system to have at least one year of teacher training. By 1987 fully 98 percent of primary school teachers had been trained; 55 percent had either four years in teacher training or their baccalaureate degree and one year of additional training. The supply of trained teachers may pose a bottleneck to further expansion of the school system. Enrollment in the teacher training program has dropped precipitously since 1983 and in recent years graduates have been too few to even replace normal annual turnover.

Most student performance indicators are at or near the levels they showed in 1980. That these indicators have held steady is in itself an achievement given the concurrent surge in the student population. Dropout rates show a very slight upward tendency and now average 8.8 percent, while repetition rates have held steady at 17 percent. At the primary level, fully 80 percent of a given cohort now reach the final class, but only 40 percent earn the Primary School Leaving Certificate (CEPE). Average test scores on the national examination show no trend.

At the secondary level, performance seems to have improved: standardized test scores are higher and graduation rates (graduates as a percent of enrollment) have increased. Improved performance on the national baccalaureate exam may reflect the introduction of a screening exam which must be passed before the exam can be attempted. On average, students at Catholic secondary schools are outperforming those who attend public or nondenominational private schools.

Inputs and Process Indicators for Education, 1978-1988

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
INPUTS											
Students											
Female	164,778	180,199	190,721	200,986	216,322	-	253,388	271,078	281,472	298,793	-
Male	272,433	287,192	331,280	328,719	352,544	-	407,540	432,537	448,133	466,607	-
Total Enrollment	437,211	467,391	522,001	529,705	568,866	-	660,928	703,615	729,605	765,400	-
of which: Primary	346,373	-	-	-	452,675	496,066	533,394	567,069	583,890	610,946	643,477
Secondary	78,468	-	-	-	99,705	108,946	113,017	121,064	129,864	136,873	144,761
Scholarization Rate											
Primary (6-11)	40.9%	-	-	-	47.2%	50.2%	52.3%	53.9%	53.8%	54.6%	55.7%
Secondary (12-19)	10.2%	-	-	-	11.0%	11.2%	11.5%	11.8%	12.5%	13.1%	13.3%
Teachers											
Primary											
Rural	2,249	2,[illegible]4	2,649	2,834	3,423	3,731	4,197	4,678	4,747	4,937	-
Urban	4,061	4,271	4,701	5,195	5,959	6,398	6,779	6,319	6,533	6,631	-
Total	6,310	6,715	7,350	8,029	9,382	10,129	10,976	10,997	11,280	11,568	-
Secondary											
Rural	0	0	0	0	0	0	5	22	58	74	-
Urban	2,300	2,494	2,809	3,075	3,220	3,560	3,773	4,016	4,261	4,485	-
Total	2,300	2,494	2,809	3,075	3,220	3,560	3,778	4,038	4,319	4,559	-
Total Primary and Secondary	8,610	9,209	10,159	11,104	12,602	13,689	14,754	15,035	15,599	16,127	-
Teacher Training	85	108				143	135	141	134	123	-
University	539	578	644	648	638	635	685	701	710	-	-
Schools											
Public											
Primary	1,265	1,334	1,419	1,503	1,622	1,798	1,984	2,080	2,160	2,207	-
Secondary	91	94	97	101	108	114	130	135	144	150	-
Total Public	1,356	1,428	1,516	1,604	1,730	1,912	2,114	2,215	2,304	2,357	-
Private											
Primary	155	159	162	169	173	171	166	167	162	166	-
Secondary	78	79	77	86	91	96	115	127	133	139	-
Total Private	233	238	239	255	264	267	281	294	295	305	-
Total Schools	1,589	1,666	1,755	1,859	1,994	2,179	2,395	2,509	2,599	2,662	2,373
of which Rural Prim.	-	-	-	-	-	-	-	-	-	-	1,796
PROCESS INDICATORS											
Dropout Rate											
Primary	7.0%	8.0%	8.0%	7.0%	7.0%	8.0%	8.0%	8.0%	9.0%	8.0%	-
Secondary	11.8%	10.8%	9.9%	7.9%	10.6%	12.1%	13.9%	-	11.2%	11.4%	-
Overall	8.1%	8.2%	8.2%	7.4%	7.4%	8.7%	8.6%	-	9.1%	8.6%	-
Repetition Rate											
Primary	16.4%	17.0%	16.9%	16.9%	17.2%	16.4%	17.0%	16.8%	17.1%	15.6%	-
Secondary	14.7%	15.8%	14.6%	15.8%	19.8%	17.0%	19.7%	18.7%	17.5%	18.7%	-
Overall	16.1%	17.5%	16.3%	16.7%	17.7%	16.5%	17.4%	17.1%	17.2%	16.2%	-
Number Graduating											
Secondary											
BFEM	-	3,607	7,998	5,537	7,174	-	-	-	-	14,334	-
Baccalaureate	3,028	3,632	2,877	2,360	2,136	2,843	3,036	2,981	3,948	3,910	-
Total Secondary	-	7,239	10,875	7,897	9,310	-	-	-	-	18,244	-
Teacher Training	960	1,026	1,256	1,733	1,774	1,407	524	746	553	391	-
University	-	1,221	1,349	1,563	1,601	1,770	1,092	1,483	1,478	1,553	-
Avg Test Scores on National Exams											
Primary	52.3%	40.1%	37.0%	42.3%	50.9%	41.8%	58.5%	27.3%	36.4%	47.5%	-
Secondary	28.6%	27.1%	32.0%	30.5%	31.5%	32.8%	37.8%	49.9%	48.9%	52.7%	-
Public											
BFEM	-	25.0%	49.6%	33.2%	30.6%	-	-	-	-	58.6%	-
Baccalaureate	57.4%	58.0%	71.4%	68.1%	52.9%	59.4%	62.6%	53.5%	62.0%	63.4%	-
Avg 2ndary Public	-	33.9%	54.2%	40.0%	-	-	-	-	-	59.3%	-
Private											
BFEM	-	13.7%	15.8%	18.6%	26.0%	-	-	-	-	42.8%	-
Baccalaureate	28.3%	31.3%	37.8%	27.7%	40.3%	42.1%	44.9%	32.9%	43.3%	41.6%	-
Avg 2ndary Private	-	20.1%	18.3%	20.1%	-	-	-	-	-	42.6%	-
Teacher Training	0.98	0.99	99.0%	97.0%	99.0%	98.0%	99.0%	99.0%	92.0%	99.0%	-

TABLE 6.3

Inputs and Outputs for Health, 1975-1988

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
INPUTS												
Facilities												
Hospitals												
Outside Cap Vert	-	-	-	-	7	-	-	-	-	-	-	-
Total	9	9	11	11	11	12	12	12	14	16	16	16
Health Centers												
Outside Cap Vert	-	-	-	-	33	-	-	-	-	-	-	-
Total	33	34	34	36	35	35	35	36	40	46	45	47
MCH Centers	66	66	65	66	65	65	65	65	65	65	66	65
Public Health Posts												
Rural	279	284	-	300	238	295	-	356	374	-	-	408
Urban	66	66	-	44	79	91	-	65	63	-	-	68
Total	345	350	347	344	379	376	385	421	437	467	470	466
Health Huts	-	-	-	-	200	820	874	-	830	873	1258	1285
Maternity Facilities												
Rural	-	-	-	-	189	192	198	508	448	493	445	487
Urban	52	58	58	58	31	49	48	49	48	54	54	56
Total	-	-	-	-	220	241	247	557	496	547	499	543
Beds in Facilities												
Hospitals	3,387	3,358	3,469	3,400	3,803	3,623	3,285	3,254	3,213	3,579	3,889	4,044
per 10,000	6.7	6.5	6.5	6.3	6.4	6.1	5.6	5.3	5.1	5.6	6.3	5.9
Health Centers	864	890	900	881	878	787	742	678	696	613	751	789
per 10,000	1.7	1.7	1.7	1.6	1.6	1.4	1.3	1.1	1.1	1.3	1.1	1.1
Urban Maternity	1,501	1,538	1,673	1,575	1,541	1,392	-	1,439	1,427	1,351	-	-
per 10,000	3.0	3.0	3.2	2.9	2.6	2.4	-	2.4	2.3	2.1	-	-
Public Employees												
Physicians	268	281	278	279	336	336	328	333	288	326	-	298
per 10,000	0.54	0.57	0.53	0.51	0.60	0.58	0.55	0.55	0.46	0.51	-	0.44
% in rural areas	-	-	-	-	-	32%	-	-	-	-	-	-
Nurses	2,311	2,362	2,380	2,521	2,534	2,610	2,088	1,826	2,086	1,842	-	2,085
per 10,000	4.62	4.38	4.46	4.84	4.63	4.54	3.56	3.18	3.35	2.86	-	3.07
% in rural areas	24%	24%	-	24%	24%	22%	-	37%	38%	-	-	39%
Midwives	318	336	366	391	417	398	311	282	329	338	-	418
per 10,000	0.64	0.66	0.69	0.72	0.73	0.68	0.53	0.48	0.52	0.52	-	0.61
OUTPUTS												
Visits to Facilities (1,000s)												
Hospitals	-	472.2	382.7	448.7	240.4	139.0	312.6	278.1	228.2	387.0	418.4	338.6
Health Centers	-	-	-	3,884.3	3,671.6	3,469.9	3,130.1	2,884.3	3,847.7	1,380.0	1,809.7	678.0
MCH Centers	919.5	1007.7	1050.9	1004.6	843.6	541.2	385.8	142.1	210.5	354.8	376	166.5
Public Health Posts												
Rural	591.5	602.1	-	636.0	633.9	604.2	-	754.2	792.8	-	-	884.2
Urban	-	-	-	6,171.3	4,251.7	4,840.7	-	3,581.8	1,821.8	-	-	332.6
Total	-	-	-	6,807.3	4,885.6	5,444.9	7,122.0	4,318.0	2,414.7	2,326.0	2,314.0	,197.5
No. Births in Maternity Facilities												
Rural	-	-	-	18.9	15.1	17.8	8.4	8.1	10.8	15.5	8.3	4.3
Urban	73.5	85.0	101.7	129.7	80.4	92.1	58.0	32.5	71.6	88.4	55.0	35.2
Total	-	-	-	148.3	86.3	110.0	68.4	60.8	82.4	104.9	63.3	39.5
Immunizations (1,000s)												
BCG												
Rural	152.0	274.4	-	148.6	227.3	401.6	35.4	60.7	11.7	-	13.0	223.5
Urban	35.7	59.7	-	52.1	45.4	93.5	24.7	27.0	45.6	-	158.8	120.4
Total	187.7	334.1	-	201.7	272.7	495.1	60.1	87.7	57.3	-	171.8	343.9
Measles												
Rural	-	150.2	-	154.4	184.2	34.6	38.5	64.7	41.0	-	-	263.5
Urban	-	0	-	29	99.9	232.4	13	128.6	103.4	-	-	141.8
Total	175.4	150.2	30.2	183.4	284.1	266.8	51.5	183.3	144.4	-	-	405.3

Source: R. Gallagher and O. Ogbu, Annex III of "Public Expenditures, Resource Use and Social Services in Sub-Saharan Africa," World Bank, November 1986.

1/ From Chumbas. May not correspond exactly with data from previous years.

TABLE 6.4

GROSS PRIMARY SCHOOL ENROLLMENT RATES BY REGION
(for ages 7 to 12)
(percentage)

	1977-88	1981-82	1987-88/a
Senegal Average	40.9	47.2	55.7
Regions			
Dakar	87.1	90.1	89.7
Ziguinchor	60.0	86.3	102.0
Diourbel	14.6	21.0	31.0
Saint Louis	39.5	45.1	46.2
Tambacounda	20.6	29.0	31.3
Kaolack	22.6	30.3	40.4
Thies	30.9	43.3	56.1
Louga	17.6	20.8	32.8
Fatick	20.5	33.3	43.3
Kolda	25.2	34.0	45.4

Source: G. Chambas, "Les conséquences sociales de l'ajustement: le cas de l'éducation et de la santé," report prepared for Elliot Berg Associates, November 1989.

/a Preliminary figures.

Tertiary education, especially the vocational schools, has borne the brunt of recent cuts in the education budget. Although the long-term impact of these cuts is not yet clear, it is known that graduation rates have declined at the university.

In the health sector, standard indicators of health status show a marked improvement in the 1980s, even as most delivery indicators (such as consultations and hospital stays) have decreased. According to World Bank data, life expectancy increased from 40 in the early 1970s to 43 in the early 1980s and 48 in 1987, while infant mortality declined from a rate of 147 per thousand live births in 1980 to (a still high) 131 in 1987. The fall in infant mortality seems to have occurred mainly in rural areas; several studies reported by Chambas show declines there of 25 percent between the mid-1970s and the mid-1980s. Table 6.5 shows morbidity rates for major diseases and indicates generally sharper declines in morbidity in the 1980s than in the 1970s. Much of this decline can be attributed to a successful series of vaccination campaigns: only 13 percent of young children had received BCG vaccinations in 1981 compared to 94 percent in 1988; the vaccination rate for measles rose from 15 percent to 75 percent over the same period, and coverage for yellow fever from 10 percent to 76 percent. While daily calorie supply per capita remains high in Senegal (estimated at 2,350 by the World Bank), childhood malnutrition levels are no better than average for Africa: roughly 30 percent of children under five show some signs of wasting or stunting.

Declining Public Expenditure and Improved Performance

It appears that despite stagnant and declining real per capita public sector expenditures during the adjustment programs of the 1980s, the health and education status of the Senegalese people, and particularly rural people, has, on aggregate, improved. How can this be explained?

In education there is at once less to explain and some clear explanatory factors. Education expenditures suffered real cuts only after 1984. The educational authorities in Senegal also made a number of important adjustments to austerity:

- They increased the share of the budget going to primary education from 36 percent to 46 percent between 1978-1981 and 1986-1987, shifting funds out of higher and vocational education: some slippage occurred in 1988-1989, when the primary-level share of the budget fell to 44 percent;

- They increased the share of primary education spending going to rural areas. Between 1978 and 1988, enrollment ratios grew by more than 50 percent in eight of nine regions outside of Dakar. Since the enrollment ratio in Dakar remained unchanged, the result is a significant equalizing of educational opportunities (Table 6.4);

- Teacher salaries, like all public employee salaries, were restrained during most of the 1980s. The decline in real wages (nearly 50 percent per teacher between 1978 and 1988) facilitated employment of a larger number of teachers, while the redeployment of Ministry of Education staff from administrative work to teaching freed up 1,262 additional teachers between 1984-1985 and 1987-1988; and

TABLE 6.5

MORBIDITY RATES FOR SEVERAL MAJOR DISEASES
(cases per 10,000 inhabitants)

Disease	1974	1979	1985
Measles	72	70	38
Whooping Cough	66	33	12
Poliomyelitis	0.6	0.3	--
Tetanus	2.2	2.0	--
Malaria	1,147	910	474

Source: . Chambas, "Les conséquences sociales de l'ajustement: le cas de l'éducation et de la santé," report prepared for Elliot Berg Associates, November 1989.

- In primary education, major innovations were introduced: mixed grade classes and double shifts allowed more efficient use of physical plant and of teachers. In 1987-1988, almost 15 percent of pupils were in double-shift schools, as compared to 7 percent a year earlier. Teachers under the double- shift system (517 in 1988) work two shifts of 20 hours instead of one of 28 hours. These teachers, like the 146 teachers in mixed-grade classes (in 1987-1988), receive a pay bonus of 25 percent above base salary. These arrangements economize significantly on teacher cost per pupil and are regarded as successful, although they involve reduced classroom hours for pupils — 25 percent less in the case of double shifts — and thus may be putting educational quality at risk.

Similar reallocations of resources are also evident in the health sector. The number of health posts and health huts grew especially sharply in the 1980s, often financed by donors or local communities. The number of government doctors per person fell, but by much less in rural areas than in Cap Vert. The number of midwives per capita increased in rural areas and fell only slightly in urban areas.

But this is hardly enough to explain the apparently substantial improvement in health status indicators in Senegal, especially since real public spending on health has been in steady decline for some 20 years. It is of course possible to reject the health status data; they certainly have lots of deficiencies and uncertainties. But they are no worse than similar data for other developing countries, and are probably better than most. And the trends in the data are so clear and so strong, they are hard to deny.

One partial explanation is that as public expenditure has waned, foreign aid donors and private providers have more than filled the resulting gap in health services. Total health aid to Sub-Saharan Africa in the first half of the 1980s averaged about US$ 500 million a year; Senegal probably received $20-25 million a year during this period.[4] This includes only a small part of the contribution of NGOs; the Catholic Church in particular is very active in the health sector.

User fees became more general during the 1980s; by 1985, two-thirds of the medicines distributed by health centers and posts were financed by users and user fees accounted for 4.7 percent of the Ministry of Health budget. Cost recovery activity has moved from post to center to hospitals, probably as a result of the sequencing of budget cuts. Thus, as the health budget has continued to shrink, rural posts may now be finding themselves better able to finance health care than their urban counterparts. Local governments are allocating much of their (slender) resources to the purchase of medicines and construction of rural health facilities. In 1985, local health committees sponsored the construction of 265 health huts, 53 rural maternity facilities, and 61 health posts. Private practitioners are providing an increasing share of curative services, particularly in Dakar. About three quarters of the physicians in the Dakar area were in private practice in 1988, compared to a little over half in 1980. It is estimated that private health care provides 30 percent of the nontraditional total and that this percentage has been increasing.

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[4] See F. Orivel and A.J.R. Tchicaya, "L'aide extérieur publique a la santé en Afrique sub-saharienne," in *L'économie sociale dans les pays en développement*, Actes de Colloque, Caen, September 28-29, 1989, pp. 279 ff.

Another undoubtedly important factor in the improvement of Senegal's health status has been the increased effectiveness of preventive health services such as the antimalaria program, maternal and child health care programs, and especially the expanded program of vaccinations which has been in operation since 1978. These programs, usually operating autonomously and with outside support, have not been dependent on central government budget support and thus have been largely unaffected by the drying-up of local financing. The fact that they could continue their preventive operations is almost certainly a major part of the explanation of the paradox of reduced public spending and improved health.

A set of intangible or spillover factors may also be relevant. The 1980s witnessed much new well digging in rural areas; greater access to clean water may explain some of the improved health status. Also, there was probably a substantial improvement in physical infrastructure in the 1980s, giving rural people easier access to transport and communications and with it access to health-related services, including emergency care. An expansion of private spending on medicines and traditional practitioners' services may also have occurred; these have, after all, always been the principal source of medical care for most of Senegal's rural population.

A final factor, based on more cynical observation, may be that most of the earlier public spending on health did not have much impact on average health status; it affected few people at best. So its reduction has hurt only a limited segment of the population.

V. ADJUSTMENT POLICIES AND INCOME DISTRIBUTION

In this final section we address the question: How have the stabilization and adjustment programs of the 1980s affected the economic welfare of major socioeconomic groups?

Specific impacts on income levels and distribution and on employment were to be expected. As part of the New Agricultural Policy (1984), consumers were to pay higher prices for rice and other staples; this was to be the main pillar of food policy, intended to stimulate local food production and move Senegal closer to food self-sufficiency. At the same time, local agricultural producers were to receive higher prices both for food crops and for exports. One implication of this policy was that the rural-urban terms of trade were to be turned in favor of farmers, which would not only stimulate output but also help deter rural exodus.

Public sector wage earners were to suffer because of budget constraints that would hold down wages and employment; over part of the 1980s, wage and employment freezes were attempted. The policy of shrinking the role of the state would in fact require **reduction** in staff. And part of the expected fallout from the New Industrial Policy, which liberalized the import regime, was at least a short-run reduction of industrial employment.

Costs to wage earners and to consumers were to be balanced or compensated in various ways. Most importantly, the adjustment measures would produce a supply response in the economy; the GDP growth rate would rise. Also, foreign assistance inflows would rise, or at least not fall, in recognition of Senegal's determination to adjust. Finally, the Government of Senegal, in pursuit of ongoing social policies, would introduce employment schemes, including some that would be addressed to the "new poor" or "victims" of adjustment, notably disemployed workers.

Our analysis is divided into two parts. In the first we address the question of implementation: To what extent have the key price and wage policies and the anticipated employment effects been realized? In the second, we review some of the measures that have been taken to cushion the impact of adjustment policies either on "victims" or on the poor generally.

Implementation

Data bearing on the implementation question are assembled in Tables 3.3 through 3.7 in Chapter Three, and Tables 6.6 and 6.7 below. These data are partial and rarely robust but they suggest a number of significant conclusions.

- The objective of raising real prices to agricultural producers was only partially achieved. Table 3.3 in Chapter Three shows that real groundnut prices were lower in the 1980s than in the 1970s, and, compared to 1980, were lower in most years of the ensuing decade. Cotton, millet and rice prices did better; they were in fact higher compared with 1980, although not with the 1970s. Groundnuts are the major source of farm cash income (over 80 percent of the total). So the fact that its real price was below its 1980-1982 level through most of the decade means that the weighted real producer price for major crops did not improve. Compared with the 1970s of course, real prices in the 1980s were uniformly lower.

- The policies designed to bring about greater food self-sufficiency, of which the centerpiece was raising the consumer price of rice, were not implemented. The real price of rice to consumers fell throughout the decade, as did the real price of bread (table 3.6). Millet prices also fell in real terms, at least after 1984, but the ratio of millet to rice prices moved only slightly in favor of millet. And if the price of prepared millet (flour) is compared to rice (the pertinent comparison to many consumers, since it compares prices of the two staples at similar stages of processing), then the relative attractiveness of rice over millet increased in most years of the decade.

- Wage-earners had declining real incomes over the decade, as tables 6.6 and 6.7 show. Between 1980 and 1986, the Dakar Consumer Price Index rose by some 80 percent; then declined by about 8 percent from 1986 to 1989. Unskilled workers suffered the least deterioration in real wages; the legal minimum wage (SMIG) retained 75-90 percent of its 1980 purchasing power throughout the decade. Skilled and educated people, the more highly paid, did significantly less well by available measures, though these may understate the real income changes of this group, since fringe benefits are imperfectly known and recorded. But it is likely that skill differentials underwent major compression during this period. This compression means that the wage income distribution probably became more equitable, even though all segments of the wage earning population were on average worse off at the end of the decade than at the beginning. Average real wage rates paid for civil service jobs fell from 30 to 40 percent between 1981 and 1985, but

TABLE 6.6

INDICATORS OF PRIVATE SECTOR WAGE CHANGES AND RURAL-URBAN TERMS OF TRADE
1970 - 1989

	Minimum Wage Unskilled Urban (SMIG)		Skilled Middle Level Manual	Highly Skilled Clerical	Average Monthly Wages (Manuf.)	Ratio Prod. Price Groundnuts to SMIG	Ratio Prod. Price Millet to SMIG	Ratio Prod. Price Groundnuts to Civ. Serv. Avg. Earnings
	Nominal (CFA/Hr)	Real Index 1980=100	Base Wage Ratio to SMIG (Percent) /a		'000s CFAF	1980=100	1980=100	1980=100
1970	51	103	1.86	8.65		103	113	95
1971	51	99	1.86	8.65		121	113	110
1972	51	94	1.86	8.65		132	113	114
1973	51	84	1.86	8.65		132	113	109
1974	98	139	1.81	8.16	55	89	86	116
1975	107	115	1.55	5.73		111	94	148
1976	107	114	1.55	5.73		111	94	NA
1977	107	102	1.55	5.73	59	98	110	132
1978	107	99	1.55	5.73		109	119	124
1979	107	90	1.55	5.73		114	125	102
1980	134	100	1.47	5.27	72	100	100	100
1981	137	100	1.47	5.17		98	98	102
1982	146	91	1.46	4.86		119	115	125
1983	152	85	1.43	4.63	136	115	111	117
1984	175	88	1.43	4.57		83	105	92
1985	184	80	1.41	4.39		95	109	107
1986	184	75	1.41	4.39		143	128	150
1987	184	78	1.41	4.39		143	128	144
1988	184	80				111	128	109
1989 /b	184	81				111	134	NA

Sources: F. Martin, "Senegal Country Study," in Elliot Berg Associates, Cereals Policy Reform in the Sahel, OECD/Club du Sahel, 1986; IMF and Peter Bloch, Wage Policy, Wage Structure, and Employment in the Public Sector of Senegal," World Bank, 1985.

/a From Collective Agreement for Commercial Workers.

/b 1989 price data is for January only.

TABLE 6.7

INDICATORS OF PUBLIC SECTOR WAGE CHANGES, 1970 - 1989

	Government Wage Bill	Employment	Average Monthly Earnings	Civil Service Monthly Rates				Civil Service Monthly Earnings (Thousands CFAF)		
				Minimum		Maximum				
Fiscal Years	Billions of CFAF	Thousands	Thousands	Nominal Thousands	Real Index 1981 = 100	Nominal Thousands	Real Index 1981 = 100	Cat.A	Cat.E	Overall Average
1970	20.8	37.7	46.0							
1971	21.6	38.5	46.8							
1972	23.3	39.7	48.9							
1973	25.5	40.6	52.3							
1974	32.0	42.7	62.5							
1975	37.0	45.9	67.2							
1976	40.8	NA	NA					130	26	54
1977	41.8	52.7	66.1							
1978	48.4	51.8	77.9							
1979	68.5	56.9	100.3							
1980	79.4	59.3	111.6							
1981	83.3	63.0	110.2	29.6	100.0	231.3	100.0	201	49	113
1982	92.7	66.3	116.5	32.3	93.0	233.4	86.0			
1983	100.4	67.7	123.6	34.9	89.9	236.7	78.0			
1984	106.6	67.0	132.6	36.5	84.9	238.2	70.9	203	63	127
1985	111.8	68.8	135.4	36.5	72.9	238.2	60.9			
1986	119.8	68.1	146.6	36.5	68.6	238.2	57.3			
1987	122.3	67.1	151.9	36.5	71.7	238.2	59.8			
1988	125.2	66.5	156.9	36.5	72.9	238.2	60.9			
1989 /2										

Sources: IMF and Peter Bloch, "Wage Policy, Wage Structure, and Employment in the Public Sector of Senegal," World Bank, 1985.

/1 From Collective Agreement for Commercial Workers.

/2 1989 price data is for January only.

then stabilized through 1988. Average civil servant earnings also fell by about 40 percent (Table 6.7). There has been some slippage in salary bill containment in 1988 and 1989 as successful strikes led by a number of unions have resulted in major wage concessions: for example, the 40-percent supplement gained by teachers in early 1989. Private sector earnings have probably fallen less sharply in the 1980s, but available data are sketchy.

- During the 1980s, the rural-urban terms of trade moved in favor of the rural sector, although the movement is uneven and due more to the drop in urban incomes than to increases in rural incomes (Table 6.6). As noted in Chapter Three, the most common indicator of these intersectoral terms of trade is the ratio of producer prices to urban wages. Comparing the most representative wage rate (the SMIG) with the most important cash crop (groundnuts) indicates that the terms of trade were favorable to groundnut producers through most of the decade, but that the price reduction in 1988 moved the ratio to near equality. Comparing cotton, rice and millet prices to the SMIG shows a more clear and sustained improvement relative to the early 1980s. Moreover, compared to civil servants and highly paid workers in both public and private sectors, farmers were better off throughout most of the 1980s.

- Ambiguities in the civil service wage data require caution in specifying relative wage and terms of trade changes after 1984. The problem is that average monthly civil service earnings, which are derived by dividing the GOS wage bill by recorded GOS employment, rose by 13 percent in real terms from 1985 through 1988. This can be seen by comparing the average nominal earnings shown in column 3 of Table 6.7, with the consumer price index shown in Table 3.3. This rise in real wages is not evident in the data on civil service real rates (columns 4-7). These were stagnant between 1985 and 1988. The difference between the earnings and rates data in Table 6.7 can be explained by internal promotions or movements up the salary scale; a 3 percent per annum increase of that kind is not unusual. So if we compare the civil servants earnings data with the rates data available for the SMIG, and if changes in the SMIG are representative of changes in earnings of unskilled workers, then the relative positions of the unskilled and more trained who are in GOS employment moved in favor of the civil servants between 1985 and 1988.

Employment Creation

As noted earlier, it has been widely feared that stabilization and adjustment policies, especially after 1984, would induce large-scale unemployment. Thousands of disemployed were anticipated from the planned reduction of the role of the rural development agencies. An international consulting firm predicted in 1986 that 1,000-5,000 industrial workers might lose their jobs as a result of the introduction of the New Industrial Policy. Government documents mention figures for induced unemployment of as much as 13,000 workers.

Very little solid information exists on employment and unemployment, less on trends in the 1980s, and even less on numbers disemployed directly as a result of policies identified with industrial restructuring or trade liberalization (see Table 6.8 for available figures). Some numbers exist foremployment changes in the rural development agencies. A total of 1,398 RDA employees were reported to have been laid off between 1985 and mid-1989, of which 360 were from SAED, the RDA in the Senegal River valley; 686 from SODEVA, the agency responsible for the Groundnut Basin; and 363 from SOMIVAC, the RDA that works with farmers in the Casamance. An unknown but probably significant number were immediately taken on by project authorities working in the same area. The number discharged in any case is much less than the 2,380 envisaged in the New Agricultural Policy and other statements of government policy.[5]

The number disemployed in the industrial sector is not known. Employment in manufacturing has been stagnant or in decline for some years. Thus, significant shrinkage of manufacturing employment occurred before 1986, before the beginning of the trade liberalization program. Some frequently cited examples of adjustment-induced unemployment, such as the loss of about 500 jobs as a result of the closing of the Bata shoe company, had little to do with post-1986 changes in trade policy.

Whatever the volume of unemployment that can be linked to adjustment policies, the policy response through the middle 1980s was addressed more to the educated unemployed than to those displaced by adjustment. Public employment programs in these years were small in scale and highly concentrated on the "insertion" of new university and secondary school graduates.

Between 1982 and 1986, almost 7 billion CFAF was committed to employment-generating projects, of which 6 billion had been spent as of early 1986.[6] Some 266 projects were financed, consisting of subsidized lending operations to individuals or groups of individuals. Almost all had been targeted on the educated unemployed — 5.5 billion CFAF on 251 projects comprising the so-called *maitrisard* program, which financed the setting up of small enterprises by new graduates. A few returned emigrants (from France) had also been aided. A total of 781 "promoters" were financed: 666 university graduates, 103 secondary and technical school graduates, plus 12 returned emigrants. Each hired on average a little over two other employees, thus creating nearly 2,700 jobs. Only eight employees laid off by rural development agencies were "reinserted." The investment cost per "inserted" graduate and per job was high: about $5,000 per university graduate (at the 1985 exchange rate) and $1,050 per job. Many of the jobs did not last long, however, since — as will be noted below — many of the enterprises created soon failed. But what is most pertinent from the point of view of adjustment is that there were almost no projects for policy reform "victims" — the disemployed (*deflates*) of the public or private sectors. Nor was much done in rural areas or even secondary towns; 86 percent of the projects financed between 1982 and 1986 were in the Dakar-Thies region.

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[5] CILSS, "Le désengagement des Sociétés de Développement Rurales au Sénégal; Etude de reconversion des agents victimes des mesures de déflation du personnel," mimeo, 1986.

[6] Ministère du Plan et de la Coopération, Direction des Ressources Humaines, *Mesures de redressement structurel et politique d'insertion et de réinsertion professionnelles: Bilan et perspectives*, February, 1987, p. 12.

TABLE 6.8

EMPLOYMENT CHANGES, 1970 - 89

	Employment, in Thousands		
	Civil Service	Public Enterprises	Manufacturing Sector
1970	37.7		
1971	38.5	14.1	
1972	39.7		
1973	40.6		
1974	42.7		23.0
1975	45.9		
1976	NA	18.0	
1977	52.7		26.7
1978	51.8		
1979	56.9		
1980	59.3		27.3
1981	63.0	21.2	
1982	66.3		
1983	67.7	23.1	27.2
1984	67.0	24.0	
1985	68.8		
1986	68.1		
1987	67.1		
1988	66.5		
1989			

Sources: F. Martin, "Senegal Country Study," in Elliot Berg Associates, Cereals Policy Reform in the Sahel, OECD/Club du Sahel, 1986; IMF and Peter Bloch, Wage Policy, Wage Structure, and Employment in the Public Sector of Senegal," World Bank, 1985.

After 1987 important changes occurred.[7] First, the institutional structure for employment policies was strengthened. A government agency, the Délégation à l'Insertion, à la Réinsertion et à l'Emploi, was created to manage the government's policies and programs in employment creation. New financial instruments were also created — a Fonds Spécial de Réinsertion and a Fonds National d'Emploi (FNE) with a special financing facility for microenterprises (the Fonds Special or FS).

Second, the pace of spending on these programs increased. Between November 1987 and March 1989 almost 3 billion CFAF were spent, compared to 6 billion in the 48 months between 1982 and end-1985. The rate of spending rose sharply in the first two months of 1989.

Third, the target groups became more diverse and "victims of adjustment" received more attention than the educated unemployed. Table 6.9 shows the target groups of the 228 projects financed after November 1987, the resulting volume of job creation, and average costs. Fifty-one percent of the approved projects went to disemployed workers, about half of those being ex-RDA employees. Only a quarter of the projects were for university and technical school graduates.

Finally, the program became much more dispersed geographically. Table 6.10 shows that only half the projects were in the Dakar region — a sharp drop from the proportion in earlier years.

Evaluation of these programs is not possible with the information at hand. The scope has been limited; about 8 billion CFAF were allocated between 1982 and March 1989. The number of jobs created is uncertain. Data are inconsistent, only initial employment estimates exist, "promoters" can be an individual or a group of individuals, and seasonal or temporary jobs are often not distinguished from permanent ones. It seems unlikely that more than 3,000-3,500 jobs were created by these programs since 1982. And these are at high average cost — about $8,000 a job, at 1989 exchange rates. Moreover, the risks of failure are high, which of course escalates the costs per permanent job created. This is evident from the results of the *maitrisard* program, which financed the creation of small enterprises by university/school graduates. Table 6.11 summarizes information available at SONAGA, the managing agency of the program, in the spring of 1989. It shows the high rate of failure in commerce, in fishing, and in transport (trucking), and the high implicit cost of each durable job.

Since the political disturbances of early 1988, the GOS has proposed a number of larger-scale initiatives in employment generation. In his June 1988 address to the nation, President Diouf recommended the adoption of a Civic Action program which would allow young volunteers to serve for a year in military-like organizations that would engage in construction of public works and other economic activities. This idea has considerable history in Senegal; it was tried in the 1960s in various forms. The results were uniformly inauspicious — the programs were poorly targeted, inefficiently run, and expensive. Experience with these kinds of youth employment schemes has been no different in other countries. It is fortunate, therefore, that no action had been taken, as of the end of 1989, to implement the president's proposal.

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[7] The following paragraphs draw heavily on Présidence de la République, Secrétariat Général, Délégation à l'Insertion, à la Réinsertion et à l'Emploi, "Requête de Financement du Programme d'Insertion et de Réinsertion," May 1989.

TABLE 6.9

"INSERTION" AND "REINSERTION" PROGRAM
November 1987 - February 1989

Target Group	Number of: Projects (a)	Promoters (b)	Jobs (c)	Performance b/a	c/a	c/b
University Graduates	44	69	492	1.1	11.2	7.1
Secondary/Technical Graduates	20	21	77	1.1	3.9	3.7
Disemployed (deflates) of Private Sector:						
Agric/Fish	58	78	353	1.3	6.1	4.5
Industry	16	16	48	1.0	3.0	3.0
Banks	22	24	182	1.1	8.3	7.6
Other Disemployed	20	23	71	1.2	3.6	3.1
Emigres	6	7	33	1.2	5.5	4.7
Artisan Groups	8	51	63	6.4	7.9	1.2
Unemployed Professionals	18	26	68	1.4	3.8	2.6
Other	16	58	101	3.8	6.3	1.7
Total	228	375	1488	1.6	6.5	4.0

Source: Présidence de la République, D.I.R.E., Requête de Financement du Programme d'Insertion et de Réinsertion, May 1989.

TABLE 6.10

REGIONAL DISTRIBUTION OF THE 228 APPROVED PROJECTS FOR "INSERTION" AND "REINSERTION" PROGRAM
(November 1987 - February 1989)

Region	Percentage
Dakar	51
Thies	13
Saint Louis	7
Ziguinchor	6
Diourbel	5
Louga	4
Tambacounda	4
Kaolack	3
Kolda	2
Fatick	1
Indeterminate	4
	100

Source: Présidence de la République, D.I.R.E., Requête de Financement du Programme d'Insertion et de Réinsertion, May 1989.

TABLE 6.11

MAITRISARD PROGRAM RESULTS
AS OF APRIL 1989

Sector	Number of Enterprises		Initial Employment		Investment (bn CFAF) (1982-1986)
	Created	Failed	Graduates	Employees	
Transportation	47	19	174	227	1.716
Commerce	11	11	22	52	.053
Bakeries	35	0	50	400	.816
Fishing	25	25	75	500	.775
Truck Farming	6	0	24	39	.318
Printing	7	0	20	25	.186
Others	64	nd	177	639	.880
Totals	195	nd	442	1882	4.760

Source: Sonaga, Direction de la Promotion.

A program to use unemployed urban labor to rehabilitate urban public facilities has made more progress. In mid-1989 the World Bank approved a US$ 20 million IDA loan to finance a program of public infrastructure repair in urban areas, to be carried out through labor-intensive schemes by local contractors. The project includes a "package of services" to strengthen contractor capacity and labor skills.

The World Bank apparently designed this project without much Senegalese input, which may be the reason it appears to have few champions in the Dakar bureaucracy. But there are good reasons to be uneasy about this project. Its main justification is supposedly its impact in reducing poverty. But its impact on poverty is highly uncertain. Contractors are not asked to hire poor people; it would in any case not be practicable to impose conditions on hires. It is not even clear how the managing entity will define "labor intensity" in awarding contracts. It could weigh labor intensity against cost factors in awarding bids or control actual factor inputs once contracts are awarded.

The project has some training objectives, for contractors and for workers. But this component is small ($1.5 million) and poorly defined. To the extent that the projects are truly labor intensive, they will not present much scope for meaningful skill training. And it is not certain that an environment where efficiency and cost are (presumably) subordinate considerations is one that will encourage contractor training.

An estimated 30 percent of the $18.2 million direct cost of this project will go to salaries. Based on a SMIG of 1,700 CFAF ($5.30) a day, and a work-year of 250 days, the project will generate about 2,000 jobs a year for two years, at an average cost per job of $5,000. The direct economic benefits are the avoided costs of rehabilitating the facilities using other services. But the project's rate of return using these benefits alone will surely be low. The main benefit, as noted, is the presumed impact on poverty reduction. Bank staff also claim that there will be an intangible benefit of making the overall adjustment program more palatable politically.

Aside from its poor targeting, its high cost, the ambiguity of its guidelines in project selection, and the difficulty of controlling implementation, the project has other serious weaknesses. Most important, it is hard to see how government will be able to resist pressures to maintain or even expand the program beyond its two-year life. The propensity, already evident, to shift political and bureaucratic priorities away from policy reform toward employment-creating schemes will be intensified. Not only is it likely that there will be multiplied demands on donors for these purposes, but employment schemes may come to claim more locally raised resources as well. The effects of all this on government's commitment to hold the line on employment in the Civil Service and parastatal sector cannot be positive.

VI. CONCLUSIONS

Any assessment of the impact of structural adjustment programs must first address the question of implementation: have adopted or agreed-upon policy or institutional reforms actually been implemented? If the answer is "no" or "temporarily" or "partially," the analysis of impacts has to take that fact into account. This obvious and important point is frequently overlooked. There is, for example, much analysis of the supply response of economies presumably "in adjustment" that comes to negative answers without taking into account the limited degree of reform implementation.

Social factors received no explicit attention in the early policy lending to Senegal. Both the 1977 Parapublic Sector Reform Project of the World Bank and its first Structural Adjustment Loan in 1980 are silent on social issues. After 1985, these became a major concern in Senegal as elsewhere. Since the political shock waves created by disturbances at the time of the presidential election of Febru [illegible] social questions, especially employment issues, have moved to center stage.

The adjustment process of the 1980s has had much political fallout.

- It has increased political awareness and significantly enhanced the extent and sophistication of public debate over economic policies;

- Political actors have gained influence at the expense of the administrative class in the determination and implementation of economic policy. Political parties, organized employers and wage earners, legislators, organized farmers — all seem to have more voice now compared to *fonctionnaires*;

- The adjustment process has led to some internal redistribution of bureaucratic influence. The Délégation de Réforme du Secteur Public has gained at the expense of the core agencies with responsibility for control of the parapublic sector and at the expense of the supervising ministries. The Ministries of Labor, Civil Service, and Plan have lost bureaucratic ground to the Délégation à l'Insertion, à la Reinsertion et à l'Emploi. The creation of an autonomous unit for monitoring the SALs has had the effect of creating a parallel economic policy entity alongside the Ministry of Plan and the Ministry of Finance;

- Employer groups have become more unified, better organized, and more articulate as a result of their experience with the NIP. The NIP also appears to have stimulated a big increase in the size of the trader group engaged in importing; traders licensed to import grew in number from 3,200 to 8,600 between 1987 and 1989;

- The trade unions have also become more active and less amenable to control by the governing political party. They have led effective strikes in the education and health sectors and have been major components of the opposition to reform. Salary bill containment has been adversely affected by 1988 and 1989 wage settlements with striking teachers and health workers;

- The religious brotherhoods do not appear to have influenced the reform program in any systematic way, nor have the policy changes of recent years had any unique impact on their social or political status; and

- The urban unemployed and those in the informal sector have begun to express political voice, uniting in the demonstrations that followed the elections in 1988. A more generalized response to diminished opportunity and grievances with public policy has been to fall back on more traditional organizations (religious and ethnic) for support.

After maintaining its budgetary share and real resources through the first half of the 1980s, the education sector began to see a sharp and continuing reduction in resources. However, indicators of educational status do not yet reveal any deterioration of the gains made in the first half of the decade. Enrollment ratios have continued to grow at the elementary level, with rural children enjoying greater access than ever before. Secondary school and university enrollments also continue to increase. Some of the explanation for this phenomenon of more education with fewer real public resources may be that quality is declining. Evidence to this effect does not exist. Test scores on national exams show no decline in performance and secondary school scores have in fact improved. Possible elements in the explanation are effective internal reallocation (bigger budget shares for primary, smaller ones for university; more to rural regions, less to Dakar; fewer teachers on administrative assignments, more in classrooms) and more efficient use of teachers and classrooms (double shifts, mixed grade classes).

Public spending on health has declined at a faster rate than education spending, both relatively (as a share of government spending and GDP) and absolutely (real spending per capita). This decline began 20 years ago — that is, before formal policy reform programs were introduced. Yet, Senegalese now live longer and appear to suffer fewer illnesses than in 1980. Available health status indicators suggest continuing improvement. The main reasons for this apparent paradox include increased private spending; some reallocation within the health budget (more rural-preventive and less urban-curative); continuing external aid inflows; increased effectiveness of preventive services, especially immunization; and spill-overs from general improvements in rural infrastructure.

The impact of adjustment policies on various social groups has been tempered by weak implementation of many reforms. Thus real producer prices of export crops were not on balance increased during the decade, although net sellers of food crops have probably done better than they did in the 1970s. The real price of rice to consumers fell over the decade and relative rice/millet prices moved only slightly in favor of millet. So the higher food price policy inherent in the food self-sufficiency goal was not implemented. Consumers were thus spared reductions in real income from that source.

In terms of real price changes, there have been no real winners in the 1980s; real prices were on average lower during the decade for all groups, with the possible exception of net sellers of food crops. In relative terms, however, farmers have done better than wage earners; in this sense, the rural-urban terms of trade were turned in their favor. Wage earners as a group suffered substantial falls in real wages, some jobs were lost (though not by established civil servants) and job opportunities in the modern sector dried up. Nonetheless, disemployment in rural development agencies was only half as large as planned and civil service employment actually rose by 15 percent between 1980 and 1988. Among wage-earners, the unskilled fared better than the skilled; those paid at the legal minimum wage saw their real rate erode by 10-25 percent over the decade, compared to a decline of some 40 percent in civil service average earnings and rates, with higher-skilled workers experiencing the deepest drop.

Employment policies until 1987 were limited in size and concentrated on the educated unemployed. Some 6 billion CFAF were spent on these programs between 1982 and 1986, most of it on the "maitrisard" program that provided subsidized loans to unemployed university and technical school graduates. A total of some 770 graduates were thus employed, each employing an average of two other workers. The durable employment impact of these programs was small and high-cost; many of the enterprises failed. The programs of this period in any case had little to do with helping either those hurt by adjustment (disemployed public and private sector workers) or the truly poor.

Since 1987, spending for employment generation has increased and the programs have become broader in their target groups. Disemployed workers have received more than half of the 228 loans given between November 1987 and March 1989. The other new tendency in employment policy is to seek foreign financing for make-work schemes. One of these is a new $20 million World Bank project to finance the rehabilitation of urban infrastructure by contractors who will use labor-intensive methods. While the main justification for the project inspires sympathy (poverty alleviation), this project has many weaknesses and risks: it is not well-targeted on the poor, it will be extremely difficult to administer and monitor, it will be difficult to terminate after two years, and it may sap the already weakening resolve to hold to employment and wage ceilings.

What light do these results from Senegal shed on the general debate about the social costs of adjustment? First, it does not appear that public expenditure cuts associated with the stabilization/adjustment program in the 1980s fell especially heavily on the poor. Health expenditures fell most deeply, but rural and preventive services were relatively protected and rising revenues from user fees combined with foreign assistance seem to have filled resource gaps. In any event, Senegalese were living longer and leading healthier lives at the end of the 1980s than a decade earlier. Moreover, rural, relatively poor people probably benefitted most from this improvement in health indicators. Similarly, many more Senegalese were in schools in 1989 than in 1980, rural people enjoyed much greater access to primary schools, and the quality of education does not seem to have deteriorated — this despite a sharp fall in real spending per head after 1984. In education particularly, but in health also, much of the policy response to austerity was to raise the efficiency of resource use, and to use available resources more equitably — in other words, in ways that frequently benefitted the poor.

Second, the policies adopted under the adjustment program have on balance favored the rural poor and the lowest-paid groups in the formal wage sector, those paid at or near the legal minimum wage. The heaviest wage cuts in the civil service were imposed on the more highly paid staff. The efficiency consequences are undoubtedly negative but the probable result has been a levelling of urban formal sector income distribution; we can't be sure because layoffs were probably much more substantial among the "unestablished" government workers, most of whom are at the lower end of the skill ladder.

The Senegalese experience, then, does not support the argument that the "social costs" of adjustment fall most harshly on the poorest, either in its income distribution results or in its predictions that social sector spending suffers disproportionately, with long-term negative consequences for the poor.

Two paradoxes run through the analysis of this chapter. The first has already been underscored: access to health and education, critical factors for poverty reduction in the long run, has widened in the 1980s, despite declines in real public spending. The adjustment program contributed to this outcome directly (by encouraging resource-saving or supply-augmenting adaptations to austerity) and indirectly (by assuring a larger flow of external assistance than would have been forthcoming otherwise).

Second, the bureaucracy — widely portrayed as the defender of its own interests and those of the urban elites who are its presumed clients, has lost more from the process and substance of the policy reforms of the 1980s than any other socioeconomic group. They have not lost everything: upper-level civil service jobs have not been cut. But these jobs carry much lower real remuneration than a decade ago. In the allocation of sacrifices, egalitarian ideology or instinct has prevailed; the political authorities have slashed the wages of the higher-paid elites while trying to protect those of low-paid formal sector workers. Moreover, growing political awareness and new organizational strength among other groups has resulted in a shift of authority from the bureaucratic to the political sphere. Finally, the strength of the bureaucracy has been sapped from another direction — the diffusion of organizational authority arising from the intensive donor presence and the creation of diverse coordinating bodies or new agencies, largely at donor behest.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

In this chapter we summarize the main points in the previous analyses, draw general conclusions, and spell out some of their implications for aid policies.

The central conclusion can be plainly put: Senegal did not do much real adjusting during the 1980s — the decade when preoccupation with structural change presumably occupied the center of the policy stage.

The decade was not without achievements: many positive policy and institutional changes occurred.

- Stabilization measures were successfully applied. After a rocky beginning in the early 1980s, macroeconomic performance strongly improved; between 1984 and 1987/1988, budgetary and balance of payments deficits were drastically cut and inflation brought under control.[1]

- Numerous supply-focused adjustment measures were introduced. Deregulation occurred in many markets. Price controls were eliminated on most consumer goods and subsidies on most inputs. Parallel markets in coarse grains were legalized and the old system of government price setting abandoned. Agricultural parastatals were cut back and some are better managed. Free distribution of groundnut seed has ceased, and farmers are responsible for their own seed. Compared to the beginning of the decade, farm prices rose more than urban wages. The industrial sector received a competitive shock, reform of labor market institutions was begun, entry into importing was made much easier, and the need for new investment received much more public attention. Much more is known about the public enterprise sector, its problems, and the difficulties of reducing them, while the climate for private sector activities has improved and some privatization has occurred, especially in the Fleuve region. These and other changes were discussed in the sectoral chapters. Other areas of improvement, which were not touched on in the text, include reform of public investment programming and banking sector reform.

[1] The budget deficit fell from over 8 percent of GDP in 1982/1983 to under 2 percent in 1987/1988, while the current account deficit fell from over 18 percent of GDP to 10 percent over the same period. The rate of inflation, which was 15 percent in 1982/1983, was less than 0 in 1987/1988 (see Table 1.3).

- This was a period of many droughts, external shocks, reductions in real public spending, and — at least for much of the decade — little or no economic growth. It was also, at least since 1984, a period of stabilization that required government fiscal austerity and close attention to the current account of the balance of payments. Nonetheless, in those policy areas under direct government control, such as wage and price policies, the relative position of the poor seems to have been protected. Farm prices did better than urban wage rates, and, in the urban formal sector, wage rates of unskilled wage earners fell less than those of the more highly skilled.

  Too much weight should not be put on this evidence, which is very soft, and there are some contrary indications, such as the steady rise in average civil service salaries. Nonetheless, there does seem to have been a reversal of rural-urban bias. And perhaps more to the point, throughout this turbulent period the education and health status of the Senegalese population improved, especially in rural areas.

We have tried, in the sectoral analyses, to use broad criteria for assessing the effectiveness of the adjustment program — the appropriateness of design, degree of implementation, and economic and social impact. We have also been forced to confront the question of defining "structural adjustment." Most evaluators look for supply response or impact on such aggregates as GDP growth, exports, and investment rates. This is certainly one important criterion for judging success or failure in adjustment. But it may not be a satisfactory indicator in the short or medium term. Except in severely distorted and underperforming economies (like Guinea or Ghana at the start of their adjustment efforts, and perhaps China in 1978) supply response is likely to take some time even where the macroeconomic environment is put right all at once and most of the required measures are fully implemented. Credibility has to be established. Needed institutional changes almost never come quickly. Also, many important variables intervene between policy changes and economic outcomes, rainfall and world prices being the most obvious. These can hide underlying tendencies and data weakness may rule out credible econometric sorting out of the multiple determinants of output changes.

Moreover, the growth in output and related measures of economic impact is only a partial indicator or criterion of adjustment success or failure. Two others have been mentioned throughout this report: institutional change — any sharp shrinkage of the state and the rise of new entrepreneurial or intermediary classes, for example, or a great leap forward in organization of the public sector, or a change in land tenure arrangements that opens up new productive zones; and — less tangible — the extent of learning that has occurred among local officials, politicians, and others.

I. OUTCOMES

Growth

We turn first to growth. Controversy surrounds the official GNP estimates, so even more than the usual caveats are in order. But do they tell a story of successful "adjustment"? Many would say yes. The IMF *Survey* of May 1988 carried a front page story trumpeting Senegal as a case of "adjustment with growth." The article pointed out that after many years of slow growth, output (GDP) had grown by over 4 percent a year for several successive years at the same time that budget and current account deficits were sharply cut and monetary expansion slowed.

Doubts abound, on three counts. First, the data themselves. The official World Bank estimates (in the *World Tables*) of GNP per capita, given in Table 1.1 in Chapter One, show much smaller increases, except for 1987. Even in official circles, the published official national income data are regarded with skepticism.[2]

Second, fluctuations of production in the 1980s follow established patterns, in that rainfall continues to be the major determinant of output. Thus, according to the official data recorded in IMF reports, there were two very good years in the early part of the decade: GDP rose by 6.5 percent in 1981/1982 and 8.5 percent in 1982/1983. This was the period when Fund agreements and SAL I were unravelling. The main cause of growth was good rains coming on the back of several dry years. Growth was then negative for two years, 1983/84 and 1984/85, high (over 4 percent a year) between 1985/86 and 1987/88 when rainfall was excellent, and stagnant or negative again in 1988 and 1989 when weather was less favorable.

Finally, on the sectoral or subsectoral level, it is hard to see where recent performance indicates structural changes that can contribute to growth. Disarray has characterized the formal industrial sector since the 1986 changes in trade and industrial policy. Perhaps productivity-augmenting changes were induced by the "shock" of the New Industrial Policy but evidence is not at hand. Nor were the labor market changes introduced under SALs II and III significant. Dropping the requirement for employers to hire only through the Labor Exchange had virtually no effect, since in practice employers had always gone around it anyway. Changes in the informal sector are not known and are not in any case counted in the official data.

In agriculture, the only possible new situation is in maize production which has increased fast during the 1980s. Production of other food crops has also grown relatively rapidly. The output mix thus appears to be shifting in favor of food crops. An important underlying shift may be in process, in that

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[2] To address this skepticism, the World Bank, in March-April 1990, sent a statistician to examine the Senegalese national accounts. This June 1990 report pointed out the source of the problem: the existence of two sets of official data, one produced by the Statistics Department, and the other by the Ministry of Finance, Direction de Prévision Economique. The latter, used by the IMF, was regarded with skepticism.

relative prices may have turned in favor of food crops, but the data do not show this. Groundnut production, in any case, shows no upward trend, and it is by far the main generator of rural income.

For all these reasons it is hard to see in Senegal's growth data, or in other economic outcome data, evidence that some basic change has occurred that has moved Senegal onto a higher growth path, or made the economy more flexible and more productive — which is the shorthand jargon for structural adjustment in much of the literature.

Changes in Institutional Arrangements

Nor is it possible to see fundamental changes in institutional arrangements, and the elimination of structural roadblocks to faster, higher-quality growth. All such judgments are of course subjective. But in many areas that matter, it is clear that institutional change has been slight.

The crucial area of wage adjustments, employment, and labor market flexibility, for example, were not effectively addressed, at least until the SAL IV negotiations. Despite serious dialogue and many tries, the GOS had not succeeded, by 1990, in cutting back government employment and wages. More generally, labor market inflexibilities and distortions were addressed in only a limited way. Real wage cuts in the 1980s were much smaller than in most other African countries.

Nor was the redefinition of the role of the state pushed very far, as we saw in Chapters Two and Three. Very little divestiture has occurred, and almost no change in the environment or culture of those enterprises whose shares have been offered for sale; for the most part the GOS sells minority shares, and it still seems anxious to retain holdings in many divested enterprises. Privatization via deregulation and demonopolization is making only slow steps. The coarse grain trade is somewhat more private than it was, but reform there has involved mainly bringing the parallel market into the open. Progress in privatizing agricultural input supply has been glacial. Several of the RDAs (SAED and SODEVA) have been cut back. Others, targeted in the New Agricultural Policy for extinction, rise from the ashes with donor assistance. The major crop, groundnuts, remains under substantial control, and SONACOS, the sector's dominant parastatal, shows no signs of withering away. The principal effort at structural reform in marketing — privatization of rice importing — was abandoned as a failure. Good reasons were evoked, but it is nonetheless true that rice imports are privately organized in The Gambia, which operates under many of the same constraints as Senegal.

There is also not much evidence that the management of the public sector has been strengthened over the course of the past decade. In the public enterprise sector, available data, admittedly crude, show little increase in productivity. It is not clear that price flexibility is greater now than in the early 1980s, nor is overmanning less serious a drag on financial profitability. The PE sector remained at the end of the 1980s a drain on the budget and the banking system. Indeed, one of the worst cases of financial mismanagement surfaced in the late 1980s — the cross-subsidization of *établissements publics* through the Agence de Comptabilité Centrale.

In the PE sector, and in government generally, there have been some management improvements at the micro level — that is, through audits and rehabilitation of specific public enterprises and government agencies. There are also important improvements in personnel management, data processing, debt management, investment programming, and in other areas. But three macrolevel changes have worked against better public sector management.

The first is the disaffection of numerous civil servants whose real incomes have deteriorated substantially since the 1970s. Second, fiscal pressures and inadequacies in the budget process have exacerbated ongoing problems of scarce operating and maintenance allocations. Government operations remain more than ever crippled by lack of gas for cars and trucks, lack of spares, books, medicines, copying machine maintenance, and even paper. Finally, administrative fragmentation has taken place, inspired often by donors and exacerbated by the rise of program assistance. Macroeconomic policy making is divided among the Presidency, the Ministry of Plan (until 1990), the Ministry of Finance, the Central Bank, and the Comité Technique de Suivi du SAL, with the Bank and Fund having a major role and much kibitzing by bilaterals. Agricultural policy making is dispersed among even more hands, from the RDAs and other parastatals (CSA, CPSP) and the Common Fund, which distributes counterpart from food aid sales. All of this has led to a diffusion of responsibility, created new demands for coordination, and made management of the public sector more complex and difficult.

Finally, on institutional matters, a number of issues critical to Senegal's economic future received little attention over the decade, or unsuccessful attention. Land tenure in the Fleuve is one example — not much has been done to clear away tenure obstacles to economic expansion in this promising region. Another example is agricultural research — very little usable new technology has come out of ISRA, the research organization. And as noted above, the research on new ways to process coarse grains, which aims at increasing their convenience of preparation and their storage qualities, has not come up with solutions that are cheap and acceptable by consumers.[3]

Still another neglected area of structural significance is family planning, which is even now not much of an issue in public policy discussions. It might also be said that reformers came late to the financial sector, and that even now truly structural issues in that sector are only beginning to be addressed. Something similar could be said about rural credit arrangements, although here there have been some well-focused studies and a little experimentation.

Learning

The third set of criteria for structural adjustment, after economic outcomes and institutional transformations, is learning effects. These are the hardest to define and to perceive, and the most subjective. But the principal is important: surely a measure of structural adjustment has to be the extent to which ideas have been changed, horizons widened, and new knowledge or insights gained about the nature of the adjusting society's problems.

The policy dialogue and associated studies of the past 10 years have certainly augmented knowledge about the Senegalese economy and its chief constraints. A significant number of Senegalese have participated in the dialogue, and in the preparatory work for it. Since SAL III, Senegalese have

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[3] This conclusion is contested by many observers who say that the technology is there but has not been effectively marketed.

made major contributions to setting the policy agenda and overseeing its execution. The Senegalese economic authorities have grown much more sophisticated about the costs of granting tax and other privileges to investors, about the economic implications of fiscal and monetary policies, and about the politics of economic reform.

The intellectual environment and the level of policy debate and its character have certainly changed in the past 10 years. The flaws in *dirigiste* policies and in public management of economic resources are much more widely recognized and appreciation of the nature and potentials of market solutions is far greater.

It is hard to know, however, how deep and broad these changes are, and how much the dialogue surrounding the adjustment program has contributed to the debate. Some of the potential learning benefits of the efforts at reform were absorbed by expatriate technicians, who are numerous in the economic ministries and who were often engaged in the technical work related to adjustment policies. But judging from casual observation, discussions at the university, and scholarly and popular articles on economics and economic policy, many intellectuals and officials remain unconvinced about the suitability of free market policies for Senegal. Events in Eastern Europe may do more to change this than all the debate over structural adjustment of the past 10 years.

Recent evolution in the dialogue over the sector loan for agriculture gives some discouraging signs about learning effects. This SECAL for agriculture (called PASA, its French acronym) has been under negotiation for two years. Senegalese officials have proposed their own drafts, and long joint meetings have ensued. The result of numerous drafts and frequent formal negotiating sessions over this two-year period has been stalemate on many key issues. Moreover, donor representatives have seen no consensus developing on the Senegalese side — no crystallization of policy positions. Many are unsure about who speaks for the Government of Senegal. These disappointing results suggest that the hoped-for impact of adjustment lending in consolidating government's policy-making capacities has not appeared.

II. IMPLEMENTATION

It is not only Senegal's slow progress in adjustment that stands out in this review of policy reform in the 1980s; it is also the striking fact that many of the key components of the reform program were not implemented.

- The New Agricultural Policy has gone unapplied, for the most part. Its basic strategy (more food self-sufficiency) has been abandoned, without anyone saying so publicly. Real agricultural prices were lower in the 1980s than in the 1970s, and official price ratios were never aligned so as to favor food crops. The existing official policy of maintaining floor prices for coarse grains has been dropped in practice. Rice market liberalization has not moved forward. Most of the parastatals maintain levels of activity not far from what they were in 1985. The shift toward rural producers of the terms of trade, the *responsabilisation* of farmers (groundnut seed provision and new farmer organizations), the removal of the (already largely ineffective) regulations in coarse grain markets, and the removal of fertilizer subsidies are the main planks that were put in place.

- In the public enterprise sector, adoption of most of the reform objectives was half-hearted: management selection did not result in a significantly bigger proportion of non-*fonctionnaires* as CEOs; transparency of financial operations between the state and other state entities was not much greater at the end of the decade than at the beginning; overmanning was probably not reduced, nor was the GOS resistance to raising prices of PE outputs when costs rose. Divestitures of state enterprises were minimal, and other types of privatization, not involving sale of state assets, were pursued only a little.

- In industry, tariff reforms and removal of quantitative restrictions were implemented in 1986 and 1988, special agreements that contain tax breaks and other privileges are being reviewed, most prices are no longer controlled, and the investment code limits excessive tax incentives. But "reprotection" occurred in mid-1989; it is not clear that anything is left of the tariff reform except formal abandonment of QRs, which have, however, been replaced by high minimum duties and high reference prices. It is also possible that some back-door slippage occurred even in 1988, through manipulation of the *codes de précision* and reintroduction of minimum duties. And the numerous "positive" measures (labor market reform, improved investment climate, access to restructuring credits, and so forth) were implemented slowly, weakly, or not at all.

- Some questions can be raised even about the macroeconomic successes of the mid-1980s.

  - It is true that there was a sharp reduction in the fiscal deficit between 1984 and 1987/1988. But much of it was due to declines in world prices of oil and rice, which were not passed through to consumers. This terms of trade improvement amounted to some 4 percent of GDP, which "explains" much of the budget deficit reduction between 1984 and 1988. No real improvement in tax performance occurred; there was a windfall revenue gain that was not sustainable.

  - It is also true that the government share of total expenditure was cut by over a third (from 32 percent of GDP in 1981 to 21 percent of GDP in 1989). But it is doubtful that this reflects a true structural change. (i) Some of it represents a cut in investment expenditure. (ii) Despite revenue gains, the share of tax revenues in GDP declined during these years; for reasons beyond its control (customs fraud, for example), government commanded fewer resources. (iii) The period 1985-1989 witnessed a deterioration of the banking system, which became burdened by 100 bn. CFAF in nonperforming credits. Much of this consists of credits to public sector agents. It is not, however, counted in government expenditure. On top of this, large arrears were generated in Treasury Accounts (perhaps 30 bn CFAF). So the cut in government's spending share is much less than that suggested by the decline in the budget deficit:GDP ratio.

One important explanation for slow adjustment in Senegal is thus immediately apparent: so many of the basic elements of the structural adjustment program were not implemented. It is not surprising that reform-induced output changes are few, or that intermediate objectives were not realized — improved efficiency of state enterprise operations, for example, or a substantial transfer of responsibilities to the private sector. Weakness of implementation reduced the "bite" of the program. In the agricultural sector, where nonimplementation was especially important, it would therefore be wrong to infer that supply failed to respond because the program was inappropriate, relying too much on price policy for example. The program may have been inappropriate, but that had little to do with supply response, since so much of the policy and institutional package was not implemented.

III. REASONS FOR POOR PERFORMANCE

Thus, the unprecedented volume of analysis and studies in the 1980s, the extensive and intense policy dialogue, the large amount of aid money tied to policy reform — all yielded little structural adjustment, and many of the basic reforms adopted in formal programs such as the SALs were weakly implemented. Both the limited impact of the reform effort and its poor implementation need to be explained.

Difficulty of the Task

It is useful at the outset to recall earlier observations on the difficulty of reforming government organizations, which has been a big element in Senegal's program. The problems involved are deep rooted, often intractable. Many of them have not yielded to good solutions anywhere; after all, the record of administrative reform around the world is hardly brilliant. Moreover, while more progress was to be expected than occurred, 10 years is not an eternity in these matters. Some sense of history, blended with the kind of sympathy or charitableness that comes from an awareness of the magnitude of the problems at hand, helps put the Senegalese adjustment experience in the right perspective.

Exogenous Factors

In addition to the difficulty of the task, many reasons have been given — in this report and others — to explain Senegal's slow progress in structural adjustment. These can be grouped into three categories. The first consists of external or exogenous factors. Drought and price shocks for imports (especially energy) or exports (especially oilseeds) clearly help explain the unravelling of SAL I and the related IMF programs in the early 1980s — to give one example.

Senegalese Inaction

The second set of factors relate to Senegalese actions or lack of actions. These tend to receive the greatest emphasis in discussion of reform implementation. They include: the strength of vested interests; bureaucratic foot-dragging; lack of political will or commitment, by which is usually meant the unwillingness of the authorities to accept the political risks involved in implementing painful reforms; the democratic nature of Senegal's political system, which reinforces the previous factor; ideology or belief systems — many Senegalese officials and intellectuals do not believe in the efficacy and beneficence of free markets in general and competition from imports in particular, or in the behavior-changing power of prices, the justice of market-determined prices, or in the potentials of the private sector; and the limited organizational capacity to absorb a far ranging program of policy and institutional change.

Donor Presence

The third set of explanations derives from the donor presence — from the large role played by external aid-givers in conceptualizing, implementing, and financing the reform program. We have emphasized these factors in much of the previous analysis. They are not only of central importance by themselves, but they also conditioned (and condition) Senegalese action or lack of action.

The external presence has slowed the reform process in two main ways. First, it entails large resource inflows, much diversity of policy opinion, and no willingness to impose sanctions for poor implementation, has weakened Senegalese political commitment to reform. And second, there has been some bad reform mongering — missteps or errors, in more polite language.

Senegal has been extremely successful in attracting foreign aid, for a combination of reasons: geographical (good strategic position and inclusion among the Sahel states, which are all subjects of donor concern because of their proneness to drought and their poverty); politics (competitive politics and openness); and even religion (attraction to Islamic donors). With 1.5 percent of the population in sub-Saharan Africa, Senegal received 4.8 percent of total net official assistance (ODA) to the region in 1987. In 1980-1987, aid commitments grew by 18 percent a year, more than twice as fast as total ODA; in 1987, Senegal received over US$ 100 per person, which was 20 percent of GDP and 4-5 times the average in Africa.[4] There are said to be 30 public sector donors and over 100 NGOs active in the country.

Public investment is financed by external resources in Senegal, as is a significant amount of operating and maintenance costs. Aid disbursements in 1987 were US$ 642 million. Total government revenues in that year were roughly $750 million, and export earnings were about the same. So aid donors in that year contributed an amount almost equal to locally raised revenues, and they provided almost as much foreign exchange as was earned by exports. The weight of external aid is not so heavy every year, but in the past decade it has usually been almost as heavy.

Behind these figures lie many achievements — not least the avoidance of famine during a long period of bad rains and improvements in health and education status of the poorest segments of the population during a difficult economic period. But Senegal has also been a victim of its own success; the reform program has been eroded by the aid presence.

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[4] OECD/CILSS, Club du Sahel, *From Aid to Investment--to Financial Support*, Annual Report on Official Development Assistance to the CILSS Member States, Paris, January 1990, p. 27.

Freedom From Hard Choices

This erosion has come to pass in various ways. The ready availability of donor resources has reduced that quintessential element of political responsibility--the need to make choices. The Senegalese authorities have become habituated to solving problems of resource scarcity more by looking for money from donors than by making hard choices about what to sacrifice. This is certainly understandable. What government would not do the same if it could? If a minister has a project to finance and it is rejected in the normal process of public expenditure programming, he seeks a foreign patron, who is not usually too hard to find. And if the budget is short on recurrent cost appropriations, donors can usually be counted on to provide some local cost financing. Or the cars, gasoline, copying machines, and computers of the abundant technical assistance personnel can be counted on to help keep things afloat. If government is concerned about unemployment, it holds fund-raising meetings with foreign donors, pointing to the adjustment program in which the donors are implicated as a reason for support.

The result of all this is an Alice-in-Wonderland situation in which none of the standard rules need hold. Choose only development projects with a satisfactory economic rate of return? Why, when the supply of and demand for projects is such that funding is available for any reasonably packaged proposal. Worry about debt service? Maybe. But the Senegalese and neighboring states were warned about debt service when the Manantali and Diama dams were financed. They ignored those warnings. In fact they were right to do so, since much of that debt has already been forgiven. Worry about recurrent costs enough to reject projects for which grant financing is in hand? Ridiculous. The reasonable approach is to hope that there will be more resources in the future, or that donors will sustain the completed project.

More immediate manifestations of this phenomenon are at hand Reduction of staff in SODEVA was postponed for four years on the grounds that the GOS did not have the money for severance payments. It was not until the French government provided financing that these redundant workers were let go. It is only in an aid-distorted policy environment that such things can happen.

Or take the case of wage changes in 1989. A dramatic shortfall in revenue occurred in fiscal year 1988/89. Revenues fell about 30 billion CFAF or 11 percent from the estimate in the Policy Framework Paper. Effects on expenditures were drastic — not least a cutback in repayments of old ONCAD debt, which would raise interest costs in the future. This did not stop the GOS from announcing general civil service wage increases, a hike in the SMIG, and special fringe benefit increases in the health and education sectors. Not only are the short-term consequences highly unfavorable in terms of the operation of the public sector; these actions complicate the long-term task of improving competitiveness.

Lack of Clarity in Dialogue

The presence of a multitude of donors weakens the structural adjustment effort in another way: it vastly complicates the problem of clear transmission of policy messages to the Senegalese side in the dialogue. Donors disagree on many fundamental issues — the desirability of exchange rate devaluation; the desirable extent of parastatal withdrawal from service provision in agriculture; the nature and pace of trade liberalization and industrial sector reform; the rationale for and appropriate level of protection for cereals; the desirability of introducing support prices for local cereals; the mix between collective organizations and individual agents in the *organisation du monde rural*; and even, recently, on what is the right approach to use in agricultural extension.

One implication of this is that there has been in the past a great deal of static in the dialogue. Since few sustained and technically serious efforts are made to iron out donor divergences, policy proposals that claim general adherence often have to be framed in general terms, and this can lead to significant differences in the course of detailed application.

This situation also allows responsible Senegalese who have doubts about any particular policy proposal to find allies among the donors. Whether or not this emerges as an overt item of dispute, it has the effect of deflecting the impact of the dialogue on intellectual conversions — it makes changing minds harder when everybody knows that the analytic foundations of the policy are not universally accepted. It also means that policy implementation can be avoided on grounds that the proposed policy was unsuitable.

These circumstances have to be placed in a broader political and economic context that is extremely favorable to the continuation, even expansion, of assistance. Senegal's political supporters — France first of all, but the European Community and the United States also — would take a very dim view, to say the least, of aid slowdowns. The Bretton Woods institutions take a similar position, for their own internal reasons and because of the wishes of powerful board members, and because Senegal is a poor, drought-prone country with few resources or opportunities, and part of an economically troubled region. The result is a no-sanctions environment, a generalized soft-budget constraint, which allows the GOS access to aid resources almost entirely without regard to implementation performance.

Erosion of Political Will

It is in this framework that the issue of "political will" has to be considered. In donor circles, lack of political will is usually cited as the major reason for weak implementation and slow adjustment. But this charge can be levied against any government that sacrifices some efficiency objectives for other goals. So it is not by itself an illuminating explanation.

The more interesting question is: What factors determine this kind of choice? We should first ask why the GOS authorities should reject policy and institutional reforms if their adoption would induce the benefits their proponents predict: increased productivity of resource use, faster economic growth and higher per capita incomes, healthier public finances, and more effective attacks on poverty. In addition to the obstacles mentioned earlier, such as bureaucratic resistance and vested interests, a major general reason is surely that expected benefits were too small, slow, or uncertain to outweigh expected costs. Or, the benefits that looked persuasive on a general level, and in early stages of negotiation of policy loans, turned out to be less enticing as details were filled in and implications became clearer. Or as the program evolved, the outcome of the cost-benefit calculus shifted, with the costs of implementing the reforms rising and the costs of nonimplementation (sacrificed benefits of reform impact and sacrificed aid money) falling.

The no-sanctions, soft-budget-constraint environment almost surely played a major role in shifting the GOS cost-benefit calculus in favor of nonimplementation. Although SAL I was not fully disbursed, early Fund agreements were terminated, and there have since been some delays in tranche release, donor commitments have risen steadily, despite a highly imperfect record of compliance with World Bank and other conditionality. Conditionality was never very forbidding to the Senegalese. Those who were there remember how the Bank struggled to avoid a break, even after quite flagrant noncompliance by the GOS between 1981 and 1983. They saw also that far from slowing down, foreign aid rose faster than in earlier years and faster than in neighboring countries.

If "political will" is looked at as a function of expected costs and benefits, then its lack was a factor explaining weak implementation and slow adjustment. But it was the aid presence itself, and particularly the softening of budget constraints that it entails, which undermined political will, by reducing the expected costs of nonimplementation.

Deficiencies of World Bank Policy and Programs

Although we have argued above that the large number of donors decreased the likelihood of success in Senegal, we add here that the failure to implement the program and produce desired outputs was also due to the errors or inadequacies in the design and monitoring of policy and institutional reforms, and that the World Bank — the largest and most significant donor — must take the brunt of this critique. The design inadequacies of some Bank programs were discussed in the sectoral chapters. We summarize them as follows.

- The Bank put too much emphasis on strengthening public enterprise (PE) supervisory agencies in the early period of PE reforms, and scattered its efforts among an array of such agencies rather than focusing on one or two, as it did later in the 1980s. The Bank relied too much on technical assistance, and stayed too long with an ineffective training institution, reducing thereby the training impact of its long effort to strengthen public enterprise operations. Bank staff introduced a hurried and hence insufficiently considered program of subsidy reduction that had to be abandoned after a year. The problem of indirect subsidies was neglected for too long.

  And probably most important, the Bank's strategy gave too much of a role to the negotiation of contract plans as part of an effort to ensure delivery of government financial obligations to the PEs. The objective was neither feasible nor desirable, given the nature of the public expenditure programming process in Senegal. Finally, the Bank's strategy gave too much priority to the privatization of ownership — in other words, the sale of state-held shares in PEs and some whole companies. But this program had little support among the Senegalese and its impact, even if successful, would have been trivial, since only small enterprises or share holdings were mostly involved, and the firms that were to be sold were not big drains on the budget or the banking system.

- In agricultural policy, Bank staff gave high priority to a number of reforms whose analytic foundations were shaky. This is especially true of that cornerstone of the adopted strategy — a high tax on imported rice, to encourage millet/maize substitution for rice on the consumer side, and local grain production for imported rice (and wheat) on the producer side. Many critics, inside and outside the Bank, have argued that the technical case for this policy is weak: to be effective, very large relative price changes would be needed to increase the food self-sufficiency ratio appreciably, and the results would be mainly negative — lower income, reduced export earnings, probably bigger budget deficits, probably slower growth. Risk would probably not be reduced; risks of deficient rainfall would replace world market risks. Income distribution effects would probably be negative, as net sellers of cereals, usually larger, richer farmers, would gain, while net buyers (urban households and many rural families) would lose. Nutritional status, especially of poor people in towns, would worsen.

This criticism, however, which is made in most of the recent assessments of Senegal's agricultural adjustment program, has to be tempered by recognition of some harsh realities — the need to compensate for the overvalued CFA Franc, and the need to give some protection against severe temporary drops in world rice prices. So, despite the analytic uncertainties surrounding a cereals protection policy, in practice it is hard to see that reformers had many options.

- It can be argued that the Bank took a long time to come around to the principle of border parity pricing, which is a far cry from the hazy principle of "incentive pricing" that prevailed more or less implicitly for 10 years. It also took 10 years to finally give up on floor pricing for coarse grains, which is probably undesirable and almost surely infeasible in Senegalese conditions. And in its early efforts at reorganizing seed distribution, the Bank overlooked administrative constraints. (In considering these deficiencies, however, it is important to recall that other donors were strongly pushing these weakly grounded policies and that the CFA overvaluation created much common ground on issues like cereals protection. Moreover, the GOS did not in fact adopt most of the recommended policies.)

- The industrial and trade policy reforms suffered from a series of missteps. The New Industrial Policy, which incorporated the reforms, was the outcome of collaboration between the Bank, UNIDO, and the French and U.S. aid missions, but program design consultations with local actors (employer representatives and trade unions) was weak. Moreover, the program framers underestimated the impact of QR elimination on fraudulent importing. And the local business community attacked the NIP (and the Bank) because of its "one-sidedness": it reduced levels of protection but failed to ensure parallel introduction of accompanying "positive measures."

Two measures had been promised to make the labor market more flexible. But the National Assembly rejected the one that would have facilitated layoffs, while the other (an ending of a hire-through-us-only government hiring requirement, which was approved), was of only minor importance. Hoped-for reductions in energy and utility costs proved impossible when it was decided, with Bank and Fund approval, that the GOS needed the revenues more than industry needed the reduced input prices. A promised new financing facility to help enterprises face new competition by restructuring took two years to set up and its rigid lending rules severely limited access. A revision in export subsidy arrangements left some exporters worse off than before and everyone with more complex procedures and greater uncertainty about receipt of the subsidy. Nothing was done to awaken and strengthen the two government export-assistance organizations. A new Investment Code was passed, but its provisions were less generous than the code it replaced. A one-stop window for prospective investors did open up, but with little impact; private capital outflows outweighed new foreign investment between 1986 and 1988.

In addition to sector-specific errors, a number of general deficiencies can be cited. First, the program was too much Bank-owned until the end of the decade. Senegalese participation and hence sense of ownership was minimal in the elaboration of the first three SALs, as it was in the development of the USAID policy loans.

Second, too much was tried too fast. Conditionalities or "actions required" were excessive in number and complexity. And despite evidence of administrative indigestion, the number of conditionalities increased in each SAL. (The tendency is reversed in SAL IV, which is more narrowly focused.) There was persistent overoptimism, both at the speed of implementation and the arrival of impacts. Thus the time needed for signing of contract plans and for selling state-owned assets was regularly and seriously underestimated. In some GOS documents — those presented to the 1987 Consultative Group for example — industrial production was projected to rise rapidly after 1986 as a result of the changes introduced by the New Industrial Policy. No objective factors existed to justify such optimism.

Finally, the lead player, the World Bank, was too much preoccupied with conditionality. This was true also of USAID, but less so and with fewer consequences.

Explicit conditionality is frequently inappropriate, usually ineffective, and sometimes counterproductive. It is clearly inappropriate in three sets of circumstances: when institutional reform is involved, when the conditioned action is not entirely within the control of the government, and when technical consensus is lacking. Yet in Senegal, conditionality was imposed in numerous instances where these circumstances prevailed.

Conditionality is inappropriate in institutional reforms mainly because institutional deficiencies do not normally lend themselves to improvement by specific, time-bounded changes, and because procedures and organizational capacities are weak for many reasons that are beyond quick remedy. Thus a public expenditure management system is not much strengthened by imposing a specific procedural condition — for example that all investment projects be systematically evaluated and that only those with an economic rate of return of 10 percent should be accepted for financing. Such a condition depends on adequate evaluation of projects in the technical ministries, well-established accounting conventions for costing, and so forth. These are usually lacking.

Conditionality is inappropriate when government control is lacking in another sense: where it takes two to tango. Conditionality on privatization is a good example. Government may offer shares of state enterprises for sale, but somebody has to be there to buy them at a mutually acceptable price.

Conditionality, finally, is inappropriate when it is not technically clear what to do. Agricultural policy conditionality on support prices for coarse grains is one example; another is the conditionality on raising consumer rice prices.

Conditionality is not only inappropriate in these and other circumstances, it is ineffective as well. Monitoring is impossibly difficult. Meaningful, measurable indicators are scarce. Subjective and optimistic assessments are easy to come by; it is always possible to weight performance on different indicators so that overall performance is judged acceptable whatever the extent of noncompliance. Certainly the Senegalese experience, which has seen backsliding or cosmetic compliance on many important conditions combined with rising inflows of aid, provides a good example of the ineffectiveness of conditionality.

This leads to a final and most significant disadvantage of conditioned policy lending. Its existence often distorts the dialogue. Both parties want and need to keep disbursements flowing, so in the face of lagging performance or noncompliance they agree to accept half-steps or cosmetic measures that will keep the program on track. Several cases were noted in the sectoral chapters, and more could be cited.[5]

IV. IMPLICATIONS FOR SENEGALESE ECONOMIC POLICIES

It was not a primary objective of this study to examine the substance of Senegalese economic policy and the country's development strategies. We were tasked mainly to look backward, at the way the policy reform process evolved in the 1980s and the nature of Senegal's adjustment. Many specific judgments about policy are nonetheless scattered through the report, explicitly or implicitly. Some of the principal conclusions are summarized here.

- The exchange rate issue has loomed in the background throughout the decade, and has now become a major obstacle to successful adjustment. We have taken no strong position on this debate, though the analysis in the chapter on macroeconomic policy makes clear that drastic action is required, whether by direct action on the real exchange rate (cuts in real wages associated with more restrictive fiscal and monetary policies), or by changing the parity between the CFA Franc and the French Franc — in other words, devaluing. The slowdown in French inflation, the depth of the realignments required, and the failure of the Côte d'Ivoire experiment aimed at cutting nominal wages suggest that a devaluation is probably unavoidable.

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[5] One example will suffice — privatization and the two-to-tango problem. The Bank staff person insists in SAL negotiations on inclusion of an explicit condition saying that X number of public enterprises will be privatized. The Senegalese partner notes that government will put the shares or companies up for sale, but cannot guarantee that buyers will appear. The Bank representative admits the point, but insists on retaining the condition, saying that if the GOS really tries, that will be acceptable, even if actual sales do not take place.

When the sales do not take place, as happened under SAL II, then the Bank is forced to play games, accepting as satisfactory performance not actual sale but intent to sell, as evidenced by an announcement in the press. But why should there have been any such condition at all? It is clearly inappropriate; the Bank does not wish to see sales at any price. Furthermore, conditionality on such politically sensitive issues creates a deep contradiction: it looks like something the Bank is imposing, even when this is not true. So it works in opposition to the need to give Senegal ownership of the adjustment program.

- More vigorous state-shrinking is imperative, as is improved performance of the strategic enterprises that will remain in the state sector. But policies to achieve both ends require amendment. Privatization via divestiture should be given less emphasis, and certainly less central a role in the overall reform program; other forms of privatization should be given much greater attention — contracting out, franchising, and accelerated demonopolization and deregulation, in, for example, the groundnut sector, transport, water and power, and state-owned industrial enterprises. In the attack on inefficiency in SOEs, the reliance on contract plans should be reduced; it should be accepted that given budget constraints and the way expenditures are managed, the GOS cannot regularly deliver on promises it makes to state enterprises. To base so much of enterprise reform on the contract plan, which emphasizes the definition of mutual obligations, is thus unrealistic.

- Given the revenue outlook and the likely need for greater austerity in the 1990s, it cannot be expected that the civil service will continue to enjoy even that level of real wages that it retained in the 1980s - which is another way of saying that accelerated decline in real wages in the civil service is likely whatever exchange rate policy is pressed. And materials and supplies and maintenance expenditures will be no more abundant in the next decade than they have been in the past, and probably will be even scarcer. This magnifies the need for faster state-shrinking, since the effectiveness of the public sector can only deteriorate under these expected conditions. Alternative ways have to be found to deliver key services, and the search should be much more active and imaginative than it has been up to now. The potential of privatizing activities and functions by hiving off or fragmentation have hardly been examined as yet, and contracting out has also been neglected. Also needed is greater openness to private investment, creation of autonomous institutes for provision of key services, encouragement of local consultant capacity, and encouragement of informal sector and microenterprise development.

- In agriculture, the required policy posture was outlined in Chapter Three: border parity pricing for all crops, with correction for the degree of overvaluation, and provision for smoothing of external price fluctuations by use of variable levies; quick and full liberalization of the rice and groundnut subsectors, with elimination of transport and other subsidies; improved research, and shifting research activities to regional institutes for greater continuity and easier access to resources; and quicker shrinkage of the rural development agencies. In the *organization du monde rural*, government and donors alike should show greater awareness of the need for evenhandedness, so as not to crowd out private players and thereby stunt the growth of the intermediary class that is indispensable for the modernization of agriculture.

- The need for adjustment in the industrial sector remains as great as it was in 1985, and the major instrument continues to be greater competition through reduced protection. The industrial sector will have a longer time to adjust than they did in the mid-1980s, and many of the positive ancillary measures will be in place, facilitating that adjustment.

Two general points about Senegal's policy orientation are worth emphasis. First, geography imposes strong constraints on the country's range of options. Any departure from world prices, and from prices and policies prevailing in neighboring countries, will sooner or later create intolerable stress, and force alignment. Changes in groundnut and rice pricing in 1988 were in part due to this smuggling factor, which will not go away so long as Senegal's policies are out of harmony with those of world markets and those of its neighbors.

The second point has to do with discovering comparative advantage and predicting future sources of growth. This is a matter of considerable angst among Senegalese planners and those in the donor and academic communities; Senegal, they say, is competitive in nothing, and nobody can find any convincing prospects for the future.

But this is not the right way to think about the problem. It is not the job of planners and economists, and especially aid donor staff, to predict where Senegal's future lies. This is not something we are very good at.[6] Future avenues for economic development are something that Senegalese and perhaps foreign entrepreneurs will discover. All we can do is help create a policy and institutional environment that is conducive to entrepreneurship and investment.

This is why the exchange rate issue is so crucial. With a badly overvalued exchange rate, policy makers are forced to replace entrepreneurs in the discovery process. The beauty of an appropriate exchange rate is that it allows individual decision makers to respond to economic opportunity as reflected in market prices, rather than politically or bureaucratically determined prices.

V. IMPLICATIONS FOR AID DONORS

Dilemmas of Policy-Based Lending

The postponement of adjustment in the 1980s, coupled with the high level of assistance that now prevails, creates serious dilemmas for the donor community. On the one hand the heavy aid presence in Senegal has had unintended side effects that impede the adjustment process. It reduced Senegalese political will to make changes necessary for adjustment and slowed Senegalese political maturation by allowing the postponement of hard economic and social choices. The donor presence, when it is so pervasive, also creates generalized institutional disorder. Donors garner too much influence. They decide who is well paid and who is not (by payment of supplements on externally financed projects) They also become the arbiters of institutional survival; agencies that win donor support through direct aid and from

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[6] Mauritania provides an amusing example of this. A world Bank report in June 1979 observed: "The overall growth of the Mauritanian economy from 1977 to 1985 could reach 3.5 percent with **iron ore mining** being the main motor of expansion." In May of 1987 another Bank report stated: "As the largest source of foreign exchange, **only the fisheries sector** can provide significant impetus to the economy in the short and medium term." And another document, in May 1989, says: "**Irrigated production is a key potential source of growth**. Other sectors of the economy which were previously engines of growth now appear limited in their prospects." (The irrigation in question was the traditional capital-intensive, state-organized kind. This report makes no mention of the private rice growing sector that was emerging at the time.) Emphasis added.

counterpart funds thrive, while most of the rest stagnate or disappear. Donor-sponsored or financed coordinating bodies proliferate, weakening line ministries and reducing the cohesiveness of policy making. The availability of relatively large counterpart funds, generated by program assistance, exacerbates this problem.

Even more intrusive institutional interventions have occurred in rural areas, with respect to the *organisation du monde rural*. Donors (including NGOs) have long been involved in creating and sustaining village organizations such as cooperatives, village sections, economic interest groups (GIEs), and producer associations (APBs). With these have come village cereals banks, boutiques, cooperative credit arrangements, and joint sale of crops. All of this is acceptable, even desirable. But it often creates a situation of de facto discrimination against private, profit-seeking agents. Surely one of the reasons there has not been a more vigorous growth of rural intermediary agents is the widespread preemption of their functions by donor-subsidized farmer organizations.

It is hard to see how the ratio of aid to GDP and to public expenditures, which is already very high, could be much expanded without intensifying the negative effects outlined above. The further growth in counterpart funds that is generated by program aid would probably induce further disruptions. This is where the first dilemma arises. Senegal is not only aid addicted, but will need continuing high levels of support to ease the structural changes that were postponed in the 1980s. Appeals to donors to soften social unrest will continue to draw new support. The danger is that Senegalese political muscle will atrophy further, as the authorities continue, with outside help, to put off making the hard choices; and that institutional intrusiveness will become even worse.

The second dilemma relates to conditionality and nonimplementation of agreed reform programs. Many of the participants in the policy dialogue in Senegal agree that lack of sanctions for noncompliance has been a major factor explaining Senegal's slow progress in adjustment. The dilemma arises from the reluctance of the international community, including the Bank and the IMF, to stop aid flows to needy countries except in cases of flagrant, repeated, and unrepentant nonperformance, which occurs rarely.

The third dilemma arises from the difficulty of putting together a coherent set of policy reforms in a setting where the client country is asserting "ownership" of the adjustment program. It is widely believed that implementation of adjustment programs will improve only when recipient governments feel that the program is their own. One path to this objective is to encourage the client government to take responsibility for actually drafting the detailed reform program.[7]

The idea is good. In practice, however, the program of the client government may not be acceptable to the donors; the proposed policy measures may be too few, too vague, too stretched out in time, or even contrary to "correct" policy. This is what has happened in Senegal with the agricultural SECAL. After more than two years of parallel drafting of programs by the GOS and a donor group, and lengthy meetings entailing line-by-line discussion, the GOS position is still far from that of the donors.

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[7] Recommendations to adopt such approaches have been made by a number of observers, including the authors of some recent World Bank reports. See Berg, Elliot; W. Hecox; and J. Mudge, "Evaluation of Kenya's Structural Adjustment Program," USAID, Nairobi, 1985; and World Bank, *Sub-saharan Africa: From Crisis to Sustainable Growth*, 1989.

In this kind of situation, the GOS may own the program, but the outside partners cannot buy it. So, in this case, the recommended procedures for increasing local ownership have been followed but without the desired or expected results. In the end, the need for money will drive the Senegalese authorities to sign a SECAL incorporating the donor position on contentious issues, and the sense of local ownership will have been increased very little, if at all.

What Should Donors Do?

A major conclusion of this review is that structural adjustment (or policy-based) lending is not working in Senegal, or is working very imperfectly, and that its continuation requires resolution of the kinds of dilemmas outlined above. Whatever the criterion — sustained GDP growth, institutional changes that might set the stage for future growth, or learning — its impact has been slight. But how should it be changed, if at all.

Before addressing that question, it is important to be clear about what is **not** being indicated here. The general push towards market-oriented reform, outward looking development, and general liberalization of the economy was and is the right strategy. The old policy orientation based on *dirigisme*, state capitalism, and heavy protection for industry was bankrupt and needed to be challenged and changed. The desirable direction of change was clear: growth in Senegal required a leaner state, a better structure of incentives, a more competitive economy, and a bigger role for private actors. In this respect, Senegal is no different than the other countries in Africa and elsewhere that have found liberalization a prerequisite to faster growth and modernization.

Nor does our negative assessment of adjustment lending give support to that large group of "structuralist" critics who accuse the architects of adjustment lending of putting too much emphasis on prices, private sector encouragement, export promotion, and state shrinkage. Most of these policies were so weakly and intermittently implemented that the Senegal experience provides no proof of their failure.

Nor, finally, does the judgement that adjustment lending has failed echo those critics who fault it for not having discovered future comparative advantage or future sources of growth. As indicated earlier, that is not or should not be the purpose of an adjustment program, which can and should do no more than create the right environment for entrepreneurial innovation and the discovery of new options by local people.

How, then, should donors respond to Senegal's disappointing adjustment record? Three broad options exist.

1. Donors can do **more of the same**, with some refinements and improvements. One common proposal is for more recourse to prior actions — making policy loans heavily conditional on the implementation of key actions before approval or disbursement. Another recommendation is to give greater focus to policy loans, and to reduce the number of conditions. Suggestions have been made to increase local ownership, among them allowing local officials to define the content of the reform program, as indicated above.

Prior actions and fewer conditions are the direction of change in Senegal, as seen in SAL IV and the agricultural sector loan. Prior actions now play a greater role in Fund lending — a policy change that came out of a recent review of Fund conditionality. These are desirable changes, but their efficacy remains to be demonstrated. Plenty of governments backslide on prior actions after money has been released. The details of Fund experience with prior actions are not public knowledge, but the record does not seem to indicate that the problem of compliance has disappeared.

As for the other modifications, we have seen the slim results of the effort to instill ownership by joint elaboration of the terms of the agricultural sector loan. And the streamlined, more focussed SAL IV does not seem to be off to a better start than the earlier, more diffuse SALs.

2. A second possibility is a **get tough** option. The conditionality-using donors could respond to nonperformance by drastically cutting back on levels of assistance. This might be called the Zaire model. But Senegal is not Zaire, and this option has no public advocates and few private ones — outside of a handful of disaffected working level staff in some aid agencies.

In any event, this kind of proposal is unfair, would be counterproductive, and is infeasible. It is unfair because it placed implicit blame on Senegal for a situation that is not entirely of Senegal's making: it is a bit like a drug dealer imposing a cold-turkey cure on his addicted customer. The proposal would be counterproductive because the risks of political instability and social disorder might be substantially increased.

The proposal is infeasible, in any case, for several reasons. First of all, Senegal's reform effort is not widely perceived to be particularly bad. Only two years ago, after all, the IMF chose to put Senegal on the front pages of its Bulletin, trumpeting it as an outstanding case of adjustment with growth. Moreover, in a speech he gave in April 1990, the Fund's Managing Director listed Senegal as one of seven star performers in Africa — countries that are showing "distinct success."[8] And it is infeasible also because the Bank, the Fund, and the main bilaterals are committed to spend in Africa, and none of them — especially the bilaterals with strong political and other links to Senegal — are likely to risk its destabilization because of an unsold state enterprise or a too-low price of rice.

3. The third option is to **gradually reduce the volume of aid and change its composition**, with program assistance in general and policy-based lending in particular gradually being reduced in favor of nonconditioned sector and project assistance. This is the aid policy posture that is most consistent with the analysis in this study.

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[8] He puts Senegal in the best-performing group of countries, "that are showing distinct success, as a result of several years of determined implementation of sound policies. This group provides an example to the others that there is light at the end of the tunnel, that a resolute application of well-conceived policies will produce results. Among these countries we find The Gambia, Kenya, Mauritius, Senegal, Togo, Tunisia, and more recently Madagascar. Yet even for these countries, success remains fragile. The economic progress could run out of steam and be lost, if there were to be a failure of political will to persevere with sound policies, or if there were an interruption in the flow of financing." Remarks by M. Camdessus, Managing Director of the IMF before Bretton Woods Committee Conference on Africa's Finance and Development Crisis, Washington, D.C., April 25, 1990 (IMF publicity release).

The reduction in aid volume is necessary to increase Senegal's self-reliance and reduce the negative side effects of large aid inflows, notably their distorting effects on the development of political responsibility and on institutional development. No country can avoid severe distortions when aid amounts to nearly 20 percent of its national income, finances virtually all its public investment, contributes almost as much to its budget as local taxes, and is by far its greatest single source of foreign exchange. As a rough target, aid volumes should slowly decline to, say, 10 percent of GDP by 1995, and less than 5 percent in the year 2000. Simply holding aid levels constant in nominal terms would, assuming a rate of inflation of 5 percent a year, go much of the way to achieving this target.

The form and content of assistance also should be changed, to increase its effectiveness and reduce some of the unintended side effects noted earlier. First, loans and credits that are explicitly tied to specific policy reforms should be phased out. As it has evolved in Senegal (and many other places), policy-based lending combines the worst of all worlds. It is full of explicit conditionality, which is almost never seriously invoked. The conditionality dominates the dialogue, reducing the opportunity for uncontentious and open exchange of ideas and true joint problem solving. It is thus counterproductive. It not only encourages coverups and game playing, as the parties search for ways to continue spending regardless of slippages in implementation, but the heavy conditionality is incompatible with local ownership of the reforms.

Abandonment of explicit conditionality tied to loan agreements does not mean the dropping of all conditionality. The implicit conditionality that now exists would continue to determine overall aid levels. As happens now, countries that make progress in improving their policy environment would receive more generous treatment that those that do poorly, though lending by the multilateral institutions would rarely fall to zero.

USAID programming might be affected more than any other bilateral by a shift away from conventional policy lending. But policy money such as is represented in the Development Fund for Africa could still be allocated according to policy performance. And the quest for policy deficiencies to be addressed could still go on, but would be attacked by study and dialogue and not by tying loans to performance via explicit conditionality.

It is worth emphasizing that the disappearance of explicit conditionality from SALs and SECALs and from USAID lending does not mean that conditionality will be absent. In addition to the implicit (or ex-post) conditionality deriving from the understanding that the scale of future lending depends on past performance, there is also the continuing presence of an agreed-upon macroeconomic framework, via the Policy Framework Paper, which has become standard in low income countries like Senegal. Whether or not a PFP or some similar formal statement of macro policy existed, even in a world swept clean of explicit conditionality, the suitability of macro policies would remain a major determinant of aid-worthiness.

The replacement of explicit, ex-ante conditionality by implicit and ex-post understandings will reduce game playing, encourage true dialogue, and allow local ownership to develop. It will put an end to the present ceaseless searching of policy nooks and crannies to find policy failures that can be written up for the next policy loan. It might help to put to rest the idea that adjustment is a one-time thing; for while that is true when the problem is a response to a particular shock in the internal or external environment, it is not really the case in countries like Senegal. There the problem is ongoing and long term — reshaping institutions and improving policy making in a continually changing environment.

Program assistance, even shorn of explicit conditionality, continues to have negative effects on the will to adopt reforms. Program assistance should, therefore, be reduced as a share of total aid, with less fungible forms of resource transfer playing a larger role. This means more aid in traditional project form, more in the form of on-lending to the private sector, and more in spending that takes place outside of the client country — aid to regional research institutions, for example, and scholarships and training grants in donor or third country institutions.

These recommendations may seem outside the mainstream of current thinking, but this is not so. They are similar to some of the proposals put forward in the 1989 World Bank report on sub-Saharan Africa.[9] One of the early statements made in that document echoes our argument here: "Big changes will be needed in the way aid is dispensed."

In reality, many of the recommendations that are then put forward in the report are hardly "big changes." The report calls for:

- A decade-long rise of 4 percent a year (real) in outside assistance to cover the "rising foreign resource gap" — resources needed to sustain living levels and provide savings for investment;

- A continuing (though more selective) use of structural adjustment assistance;

- Greater use of donor support for time-slices of sector and subsector development programs; and

- A greater donor willingness to fund recurrent as well as capital costs of "development expenditures."

None of this pays sufficient attention to the kinds of problems we have outlined in this study. But other proposals in the World Bank report are clearly more sensitive to these problems. Thus, awareness of the fungibility problem is indicated by the suggestion to link aid to "specific development expenditure" to minimize inadvertent funding of "military spending, luxury consumption, inefficiency and capital flight."

To help "internalize" economic policy management, the Bank report suggests that monitoring of macroeconomic performance and related donor programs should be along parallel tracks. (Presumably this means the removal of conditionality from lending programs.) The first track would be the dialogue — "as disciplined as under SA lending. But the understandings would be in less high profile ways than under SA programs. Moreover, they would be based more on a government's own internal policy papers than at present, with donors focussing on their analytical quality and on implementation." The second

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[9] World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth. A Long-Term Perspective Study*, 1989.

track "would be an agreed program of donor support, which would vary according to performance in implementing the target programs. Donor support should become far more selective. Those pursuing sound programs should receive the external funding required. ... Countries with weak performance should receive much less assistance."

Though much of this is vague and all of it is general, it seems to be in line with the spirit of our proposals. It seems to say what official Bank evaluations of adjustment lending have not said explicitly — that there are basic problems with policy-based lending and that these need fixing. The implied recommendations for separating the policy dialogue from specific lending instruments, for encouraging greater local ownership, and for reducing fungibility of these resource transfers are similar to the proposals we have put forward for Senegal. We do not agree that real aid inflows should increase during the 1990s, and we believe that circumstances require a more decisive (though gradual) retreat from program aid, whether policy based or not. And it is hard to be enthusiastic about calls for more financing of recurrent expenditure, given the fungibility of those resources. This proposal indeed is not altogether consistent with others made in this World Bank report. But it is clear that at least some Bank staff are ready to acknowledge the need for a backing off and backing down on adjustment lending.

The 1990s will be a dangerous decade for Senegal and a trying one for donors. The adjustment problems that were left unsettled in previous years have grown more acute, while Senegal's financial, organizational, and political capacity to deal with them have weakened. The social tensions and political pressures that shape public policy will be less permissive of painful adjustments than they were in the past.

Senegal's partners in adjustment and development are similarly facing new challenges. Structural adjustment (or policy-based) lending has produced modest results, and has revealed serious contradictions. The deficiencies of policy lending are becoming clearer just as the push to increase this form of aid has gained strong momentum among all donors, from A.I.D. to the European Development Fund. Senegal's donor community has to find a way to move back from its present preoccupation with conditioned policy assistance to a renewed concern with old-fashioned project aid, conditionality-free dialogue, and much-increased sensitivity about the effects of foreign aid money on political will and indigenous institutional development.

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ANNEX ONE

AGRICULTURAL CONDITIONALITY IN SALS I-III

AGRICULTURAL CONDITIONALITY IN SALS I-III

Structural Issues	Measures Taken	Measures Planned
SAL I		
Price distortions:		
- agricultural producer prices;	Increase farmers' prices as of May 1980. Elimination of subsidies on agricultural inputs, except fertilizer.	1. Study on free marketing and prices for domestic food crops. 2. Study on optimal pricing policy for export crops. 3. Study on changing fertilizer composition and prices.
- consumer prices.	Elimination of subsidized urban food prices (1975-80).	4. Easing of domestic price controls.
Weaknesses in institutional set-up in agricultural sector.	Creation of SONAR for supply of agricultural inputs.	5. Tests with a cooperative structure based on village groups (crop marketing, credit, input supplies and seed stocks).
	ONCAD put into liquidation and majority of staff put on notice of discontinuation.	6. Reorganization of research.
	Reduction in the charges of central treatment of groundnut seeds from 25%	

Structural Issues	Measures Taken	Measures Planned
	Five-year rescheduling of farmers' debts.	7. Reorganization and auditing of accounting system of cooperatives.
		8. Production of ONCAD's financial liquidation statements.
		9. Study on agricultural credit system.
		10. Strengthening of regional rural development agencies.
		11. Studies on the functions of the price stabilization fund.
SAL II		
	Cereals Policy	
Excessive dependence on food imports; subsidization of imported rice; imperfect substitutability between local cereals and imported cereals.	Initiated preparation of cereals development action program with FAO assistance. Increase in producer prices in 1985.	1. Identification of a coherent cereals development program focusing on production factors, processing, and price policies.
Rigid producer price structure and controls on marketing of cereals.	Doubling the consumer price of rice since 1982; eliminating consumer subsidies and providing adequate nominal protection.	2. Introduction of producer price-support mechanism for cereals managed by CSA.

Structural Issues	Measures Taken	Measures Planned
Excessive GOS intervention in food imports and marketing.	Adoption of objective to stabilize rice and wheat flour import volume at 1984 level for the 1985-89 period. Lifting of all barriers to the free marketing of cereals (except paddy).	3. Maintenance of at least a 25% nominal protection for domestic cereals by adjusting, as necessary, the retail price of rice, following consultations with the Bank. 4. Progressive state disengagement from rice import operations and privatization of rice distribution following completion of ongoing CPS contract (May 1986).
	Fertilizer Policy	
Excessive GOS intervention in distribution, including heavy subsidies.	Elimination of fertilizer levies on producer price of groundnuts; sale of fertilizer on cash basis only; decision not to finance subsidies through Treasury resources and relying exclusively on subsidy scheme financed by external grants in 1985/86 growing season.	5. Progressive elimination of fertilizer subsidies, import liberalization, and privatization of fertilizer distribution by 1989/90 season.
	Groundnut Sector	
Excessive state intervention in seed distribution and	Liquidation of SONAR, the parastatal managing input	6. Progressive reduction of central

Structural Issues	Measures Taken	Measures Planned
marketing of groundnuts leading to heavy burden on public finances; low producer prices; inefficient structure and management of oil mills, including heavy state subsidies to cover direct costs.	distribution; reduction in central groundnut seed stock from 120,000 t to 100,000 t during the 1985/86 season; elimination of seed and fertilizer levies on producer prices.	groundnut seed security stock. 7. Complete liberalization of seed distribution as of 1986/87 season.
	Reduction in half of the guaranteed coverage of oil mills' fixed costs.	8. Elimination of all guaranteed coverage of oil mills' fixed costs.
	Increase in the number of private traders licensed to purchase groundnuts.	9. Restructuring oil milling operations by merging SONACOS and SEIB.
<u>Institutional Reforms</u>		
Institutional weakness in planning investment programming, budgeting, statistics.	Liquidation of STN. Restructuring of SODEVA, including 55% cut in staff.	10. Continued restructuring and disengagement of RDAs.
Excessive involvement of rural development agencies (RDAs) in production activities; overstaffing; poorly defined objectives, leading to heavy burden on public finances.	Restructuring of SAED, and signature of a *lettre de mission*.	11. Strengthening Rural Development Ministry's ability to plan, program investments, and execute budgets.
SAL III		
	<u>Cereals</u>	
Reform aimed to: Reduce dependence on food imports; increase and diversify agricultural production and exports;	Preparation of cereals development action program focusing on production factors, processing, and prices.	1. Implementation of the cereals development action program, including in particular:

Structural Issues	Measures Taken	Measures Planned
increase productivity; achieve greater efficiency of public resource use through fostering private sector initiative and withdrawal of the state from direct involvement in production activities; and reduce income disparities between urban and rural areas.	Reduction of CSA operations and introduction of a floor-price mechanism for cereals. Steps taken towards disengagement of the State from rice import operations; privatization of internal marketing of cereals (except for paddy).	- audit of CSA (April 1987); - review of performance of coarse grains processing units before the end of 1987; - maintain rice protection at a level sufficient to maintain incentive to production of local cereals.
	Establishment of sufficient nominal protection for domestic cereals and periodic adjustment of retail price of rice in consultation with the Bank.	2. Establishment of a price information system for producers and traders (July 1987).
	Reduction of fertilizer subsidies in accordance with agreed timetable. Steps taken towards the liberalization of fertilizer import in accordance with agreed target date and the privatization of fertilizer distribution.	3. Fertilizer subsidy limited to CFAF 16 kg during the 1987/88 season. Agreement to complete liberalization of fertilizer imports by 1989-90.
	Groundnuts	
	Reduction of central groundnut seed security stock.	4. Groundnut Guarantee Fund to be managed without recourse to the Budget.
	Liberalization of seed distribution and implementation of a seed	5. Undertake study of agricultural incentives and price support

Structural Issues	Measures Taken	Measures Planned
	action program.	determination (April 1987). Review results of the study with the Association and agree on action program (Oct. 1987).
		6. Study to reduce groundnut marketing costs (Dec. 1987).
		7. Audit and plan of actions to restructure industrial facilities of groundnut processing industry (Mar. 1988).
	Agricultural Credit	
		8. GOS to define the main principles of its agricultural credit policy (April 1987).
		9. GOS will carry out a comparative study of ongoing agricultural credit programs in the first half of 1987, to review level of agricultural interest rates, measures to reduce non-repayments and administrative costs, and review need to establish risk guarantee mechanisms.
	Diversification and Export Promotion	
		10. Agree on TOR for investors meeting

Structural Issues	Measures Taken	Measures Planned
		(May 1987) to stimulate domestic and foreign investment in diversification export crops in the Senegal River Valley.
		11. Follow-up (June 1987).
	Institutional Reforms	
	Preparation of reorganization of the Ministry of Rural Development (MDR). Restructuring and/or disengagement of a number of rural development agencies; revision and signing of *Lettres de mission* for SODAGRI, SODEVA, SAED, SODEFITEX, and SOMIVAC.	12. Implementation of the MDR reorganization and strengthening of the MDR capacity for investment programming and budgeting (to be done under the MDR Strengthening and Organization Project).
	Management of Natural Resources	
		13. Adjustment of existing regulations on land allocation in the new irrigated areas with a view to facilitate domestic and foreign investment and diversification crops; to foster intensive land use; to recover part of investment costs; and, to

Structural Issues	Measures Taken	Measures Planned
		facilitate the reinsertion of civil servants in the agricultural sector.
		14. Preparation of a draft decree codifying respective roles of rural communities and Government in allocating irrigated land (June 1987), including regulations concerning the access to land by outsiders of the community and agro-businesses.
	Livestock Policy	
		15. GOS to define its livestock policy and strategy, including decontrol of meat prices, by June 1987, and implement action program for livestock development (Dec. 1987).
		16. Elimination of SERAS' marketing monopoly of hides and skins (Dec. 1987).
		17. Restructuring of SODESP (Oct. 1987).

Source: World Bank, Operations Evaluation Department, *The World Bank and Senegal, 1960-1987*, Report #8041, August 1989, Annex 1.

ANNEX TWO

ESF CONDITIONALITY BY SECTOR WITH NOTES ON COMPLIANCE AND RELATED CONDITIONALITIES

B. ROAD MAINTENANCE BUDGET

1. CPs dealing with creation of a road maintenance revolving account and rural roads maintenance.	Not Satisfied. No longer applicable since local currencies were shifted for use in roads program to repayment of crop credit to banking sector.	ESF I
2. Road Maintenance Budget.	Not Satisfied (see above).	ESF I

C. DAMPENING INTERNAL RICE CONSUMPTION AND ENCOURAGING LOCAL CEREALS PRODUCTION

1. GOS will request a study of constraints to cereals marketing and a plan for removal of the constraints developed.	Satisfied.	ESF III

Reorganization of the Imported Rice Sector

Written confirmation from Treasury that the CPSP has honored all financial arrears to the Grantee and private banks thus promoting a smooth transition to significant private sector participation. This written document should specify that the arrears have been honored:

2. - reimbursement by CPSP of CFAF 5.0 billion in arrears on customs duties on imported rice owed to the Treasury.	Satisfied. Letter to Min. of State 12/30/85.	ESF IV
3. - reimbursement of a minimum of CFAF 500 million to the Grantee for sums due on price equalization for CPSP's imported rice operations.	Satisfied. Letter to Director, CPSP 1/2/86.	ESF IV
4. - reimbursement by CPSP of CFAF 400 million in arrears on rice credit sales made in 1983 and in 1984.	Satisfied. Letter to Director, CPSP 12/31/85.	ESF IV

Related Conditionality: Reimbursements are part of the World Bank's goal of cleaning up CPSP accounts, arrears, and non-reimbursed advances (see USAID

ESF CONDITIONALITY BY SECTOR

A. CPSP

1. Accept the principle of hiring outside technical assistance to reinforce CPSP financial management and establish an acceptable date by which technical experts will be recruited.	Satisfied. Experts on site.	ESF I
2. Undertake an immediate audit of CPSP's accounts.	Satisfied.	ESF I
3. Examine the possibility of reducing CPSP's activities and of simplifying or eliminating the purchasing and marketing roles of CPSP.	Satisfied. Study completed and donor review held with GOS. Conditionality in multi-year ESF will address specific actions.	ESF I
4. Require CPSP to produce clear accounts of its overall situation by quarter and according to its various sectors of intervention (i.e. peanut, rice, sugar, tomatoes, flour, and cotton). The first accounts should be completed by July 1984 for the period March-June.	Delayed--late arrival of TA. Accounts should be forthcoming.	ESF I
5. Completion of diagnostic study by CPSP and recruitment of external technical assistance to strengthen finance and management.	Satisfied.	ESF III
6. Covenant to perform or cause to perform before December 1986 a detailed review of the production costs of agroindustry being subsidized by the CPSP with a view to establishing by March 1987 a timetable, including all sectors covered by the CPSP, for reducing the CPSP's price supports.	Not satisfied. Studies carried out, but still no timetable developed at mid-1989. (Some progress: SONACOS and CSS operating subsidies eliminated.)	ESF IV

Related Conditionality: SAL I called for financial reorganization of CPSP. SAL II called for reform of CPSP.

internal Memo, H. Lubell). SAL I calls for "complete repayment of arrears of customs duties."

5. Grantee agrees to announce by February 1986 that Senegal will progressively privatize rice import operations and internal distribution beginning in July 1986 through elimination of a quota system (the Grantee reserves the right to designate a specific wholesaler to distribute rice in the event of a rice shortage in any given region.	Partially Satisfied. Announcement made in February 1986. Quota system abolished 7/1/86, replaced by contracts between dist. and CPSP. New import system published 9/2/86 with effect 12/1/86.	ESF IV

Related Conditionality: SAL II calls for "effective separation of the rice operation from the CPSP and participation of private importers/traders in import and distribution of rice after May 1986 (condition of 2nd tranche release)."

6. Grantee agrees to obtain the final reconciliation of the CPSP's accounts by April 1986 to facilitate transfer of imported rice operations from CPSP to private importers.	Delayed. Satisfied. Arthur Anderson audit delivered 11/20/86	ESF IV
7. Grantee agrees to introduce by July 1986 a mechanism to manage the Grantee's security/regulating stock and to obtain an appropriate corresponding reduction in the level of CPSP personnel.	Partially Satisfied. Security stock of 60,000 MT of rice in place but no reductions in personnel.	ESF IV

Related Conditionality: SAL II requires (as a condition for 2nd tranche release) that "a security stock of 60,000 tons . . . to be financed by food aid counterpart funds . . . be constituted and managed by SONADIS."

8. Grantee agrees to ensure that CPSP will have paid a cumulative total CFAF 10.0 billion in customs duties and will have collected an additional CFAF 400 million of arrears on earlier credit sales by July 1986, assuming timely legal action, before rice import operations are transferred from CPSP to SONADIS and the private sector.	Satisfied. As of 6/30/86 CPSP paid CFAF 12.8 bn in customs duties to GOS Treasury for FYs 1984, 1985, 1986.	ESF IV
9. Grantee agrees to ensure that the regional retail sale prices of rice will reflect adequate margins and the full cost of transport by the beginning of July 1986 (prices will be considered as maximum prices and not as fixed prices).	Not Satisfied; for dist. outside Dakar, CPSP has been absorbing transp. costs since 7/1/86. While sales prices are not uniform,	ESF IV

	differences are smaller than diff. in transp. costs.	

Related Conditionality: SAL II says that the GOS is "to set the level and structure of the rice price, which would include margins based on real transport cost."

10. The Grantee will provide evidence that agroindustries (cotton, and rice) will reimburse all outstanding crop credit for the 1985 crop year. SONACOS will reimburse the crop credit and interest owed to the BCEAO with respect to groundnuts for crushing. Pending the availability of funds and appropriate approvals, the second tranche of US$ 5.0 mn will be disbursed after SEIB has reimbursed the totality of the capital plus interest owed with respect to purchases of groundnuts for crushing for the 1985 crop year.	Satisfied. Letters BNDS 12/31/85 and BCEAO 1/4/86.	ESF IV

Related Conditionality: This issue was part of the discussion leading to the SONACOS/SEIB contract plan called for under SAL II.

<u>Dampening Imported Rice Consumption</u>

11. The Grantee will provide the terms of reference for a study of measures to reduce rice imports. Such a study will examine, inter alia, (a) options for setting the domestic price of rice, if and when the world price recovers to a level beyond that reflecting a 25 percent level of protection for locally-produced grains (millet, sorghum, maize, cowpeas), (b) measures for reducing domestic consumption of rice as called for in the GOS cereals plan, and (c) a fiscal instrument for replacing the *péréquation* on imported rice.	Partially satisfied. Report by Fallou Dieye delivered 11/87. Terms of reference on (b) and (c) agreed upon but no reference included on (a).	ESF V

Related Conditionality: SALs II and III supported similar measures to reduce dependence on rice imports.

12. The Grantee will provide a draft acceptable to USAID of the study on measures to reduce rice imports, and a timetable for establishing a plan of action for achieving that end.	Satisfied. Report by Fallou Dieye delivered 11/87.	ESF V
13. The Grantee will adhere to the current timetable for privatization of rice imports, namely that the private sector will be responsible for twenty-five	Not Satisfied. Covenant amended, then deleted. GOS allotted responsibility	ESF V

percent of rice imports for the period of December 1, 1986 through November 30,1987, except for CPSP imported for managing the security stock of 60,000 MT.	to private sector for importing 85,000 MT rice March-June 1987. Then donor committee recommended one-year postponement.	

Related Conditionality: SAL II called for the participation of private importers/traders in the import and distribution of rice.

14. The Grantee will provide a substantive progress report satisfactory to USAID on the study on producer price relationships between cereals and peanuts.	Satisfied. Report by Papa Sall delivered 11/87.	ESF V

Related Conditionality: SAL III supported the agricultural prices and incentives study.

<u>Increasing the Efficiency of Resource Allocation in the Agricultural Sector / Clarification the Rice Policy</u>

15. The GOS will agree to carry out an official review of its rice policy in the light of the consultant's report prepared under the terms of ESF V, the agricultural price and incentives study by SEDES financed by the World Bank and the CCCE, and the November 1987 review, the GOS will make explicit the attempt to reconcile the competing objectives of its current price policy, among them: protection of and incentives to local production of cereals (coarse grains and rice); and alleviation of the GOS budget situation.	Satisfied. Min. Economy & Finance issued letter 12/88.	ESF VI

Related Conditionality: SAL III also required review of its study and the development of an action program based thereupon.

16. The GOS will prepare the terms of reference for a study (to be financed by USAID under ESF VI) to examine the modalities and timing for the disengagement of SAED from the milling and marketing of rice in the Senegal River Valley, as an incentive to increased paddy production and acceleration of privatization.	Satisfied. 12/88.	ESF VI

17. The GOS will prepare and present to USAID a policy statement on rice policy following the official review specified in section above.	Not Satisfied as of 9/89.	ESF VI
18. On the basis of the study referred to in section above, the GOS will present to USAID recommendations on modalities and timing for the disengagement of SAED from the milling and primary marketing of rice in the Senegal River Valley.	Not Satisfied as of 9/89.	ESF VI

Related Conditionality: SAL II calls for preparation of a specific schedule for disengagement of SAED from production activities. SAL III also calls for a reduced range of activities for SAED.

19. The Grantee will agree to undertake a study on the producer price relationships between cereals and peanuts. Such a study will also examine price differentials between Senegal and the Gambia.	Satisfied. Reports by Papa Sall 11/87, and Mbaye Mbaron Jarrama et al. 11/87.	ESF V
20. The Grantee will provide a substantive progress report satisfactory to USAID on the study on producer price relationships between cereals and peanuts.	Satisfied. Report by Papa Sall delivered 11/87.	ESF V

Related Conditionality: SAL III supported agricultural prices and incentives study.

D. SUGAR

1. The Grantee will agree to undertake an audit of the CSS.	Satisfied. Study. Audit commissioned by CPSP from Louis Berger International, O.C.C.R., and Arthur Young. Study of sugar sector by Arthur D. Little.	ESF V
2. The Grantee will provide a substantive report on the CSS audit.	Satisfied. Louis Berger study of sugar sector and CSS completed 6/87.	ESF V
3. The GOS will provide to USAID the preliminary results of the Arthur D. Little audit of the	Satisfied 8/88. Audit.	ESF VI

fixed producer prices of export crops in favor of a flexible floor price mechanism.

Related Conditionality: SAL II asked for introduction of producer price support mechanism for cereals managed by CSA.

4. The Grantee agrees to complete before December 1986 a study on the feasibility of replacing price equalization by a fiscal instrument (e.g. export taxes, tax rebates, internal taxes).	Not Satisfied. World Bank has taken up issue with GOS.	ESF IV
5. The Grantee agrees to covenant to perform or cause to perform before December 1986 a detailed review of the production costs of agroindustry being subsidized by the CPSP with a view to establishing by March 1987 a timetable, including all sectors covered by the CPSP, for reducing the CPSP's price supports.	Not satisfied.	ESF IV
6. The Grantee agrees to replace, by July 1986, price equalization on imported rice with a special tax that will be readjusted periodically.	Not Satisfied.	ESF IV

Related Conditionality: These issues were discussed as part of SAL II's call for the separation of CPSP from rice imports. Part of the Bank's goal was to make CPSP more financially viable.

F. FERTILIZER / INPUTS

1. GOS to present plan for reorganization of fertilizer sector by private sector for 1985-86 crop year by May 31.	Satisfied.	ESF III
2. GOS will complete action plan for transfer of seed stock to farmers over a 6 year period.	Satisfied.	ESF III

Related Conditionality: SAL I calls for tests with a cooperative structure based on village groups. At the November 1983 meeting of donors in Dakar, it was proposed that "eventually, seed storage must be taken over by peasants themselves."

3. The Grantee will provide a written statement cleared by the Ministry of Rural Development that for the three-year period beginning with the signature of this agreement no state credit program for	Satisfied. Letter MDR to Min. Planning 4/12/85.	ESF III

Compagnie Sucrière Sénégalaise (CSS) carried out for the GOS.		
4. The GOS (a) will review the conclusions of the A.D. Little audit of the CSS mentioned in section above and (b) will prepare and present to USAID an action plan for dealing with CSS.	Not Satisfied as of 9/89.	ESF VI

Related Conditionality: As a condition of second tranche release, SAL III calls for financial and technical audits of CSS by independent consultants prior to December 1987, as well as "actual renegotiation of convention with CSS."

E. PRICE EQUALIZATION

Related Conditionality: See related comments under **CPSP** above.

1. The Grantee agrees to eliminate price equalization on exported groundnut products and on domestically consumed vegetable oil.	Satisfied. Letter Min. of State 12/19/85. (Huber says: "Satisfied formally but not in spirit, by removal of groundnut sector form CPSP's operations. . . . However, the problem was simply turned over intact to SONACOS and the GOS Treasury.")	ESF IV
2. The Grantee agrees to authorize the oil crushing firms to recommend adjustment of domestic consumer price for cooking oil in relation to price fluctuations on international markets and local market conditions; these firms are, in turn, liable for taxes and duties on imported vegetable oil and for export duties on groundnut oil.	Satisfied. Letter Min. of State 12/19/85. (Huber: "Partly Satisfied. The domestic consumer price for cooking oil was adjusted to a new level to take account of local market conditions, but the retail price for cooking oil is still fixed and unrelated to international prices.")	ESF IV

Related Conditionality: SAL II calls for the liquidation of SONAR and the transfer of groundnut marketing responsibilities to the oil mills.

3. The Grantee agrees to establish before December 1986 a plan for phasing out before October 1987	Not Satisfied.	ESF IV

fertilizer sales will be established outside of those that already exist. i.e. those for SAED, SODEFITEX, SODEVA, and SOMIVAC (for cereals seeds) and PIDAC. The CNCAS credit program will not be affected by this condition precedent.		
4. The Grantee shall confirm that crop credit, due on the seed stock for the 1984-85 crop year, will be fully reimbursed by the end of June 1986.	Satisfied.	ESF IV
5. The Grantee will confirm that SONACOS is actively attempting to collect from farmers the peanut seed credit issued during crop year 1986/87, and will provide a status report on payments to date. If that credit is not repaid by the farmers, SONACOS will absorb the loss.	Satisfied. Letter from Min. confirms that SONACOS is trying to collect on credit. As of March 15, 1987, the CFAF 2.961 bn has been completely recovered by recuperation of seed debt.	ESF V
6. The GOS will confirm its timetable for progressive reduction and elimination of the subsidy for treatment of peanut seeds, namely in (billions of CFAF): 1986/87 - 1.0; 1987/88 - 0.5; 1988/89 - 0.35.	Huber: "Satisfied, by line item in GOS budge. Program is on track. There will be no subsidy for the treatment of peanut seed beginning with the 1989/90 crop year."	ESF VI

Related Conditionality: SAL II calls for decontrol of distribution and marketing of inputs (elimination of free distribution of seeds and GOS withdrawal from seed marketing support), at least for groundnuts, a limit on seed stock, elimination of subsidies for seed and fertilizer, and reorganization of oil mills.

G. GROUNDNUTS / SONACOS

1. Contract between GOS and oil crushing firms on management of seed stock.	Satisfied.	ESF III
2. Oil crushing firms meet contractual terms with GOS to repay debts to banking sector for 1983-1984 groundnut purchases and pay excess profits to GOS treasury in accordance with agreed upon transaction costs.	Satisfied.	ESF III

Related Conditionality: These issues were discussed at the November 1983 donor meeting in Dakar.

3. The Grantee agrees to authorize the oil crushing firms to recommend adjustment of domestic consumer price for cooking oil in relation to price fluctuations on international markets and local market conditions; these firms are, in turn, liable for taxes and duties on imported vegetable oil and for export duties on groundnut oil.	Satisfied. Letter Min. of State 12/19/85. (Huber: "Partly Satisfied." See under PRICE EQUALIZATION.)	ESF IV

Related Conditionality: SAL II calls for the liquidation of SONAR and the transfer of groundnut marketing responsibilities to the oil mills.

4. The Grantee agrees to provide evidence that oil crushing firms have received approval from the Grantee to take all necessary measures required to maintain profitability in the face of fluctuating production levels and international prices (e.g. through appropriate reductions in excess plant capacity and personnel).	Nominally Satisfied. Letter Min. of State 12/19/89. However, SONACOS still running deficit in part because of high producer price for peanuts fixed by GOS.	ESF IV

Related Conditionality: SAL II calls for a reduction by half of guaranteed coverage in oil mills' fixed costs, and for the signing of a contract plan between the GOS and the state enterprise (SONACOS) specifying a performance plan which would provide framework for restructuring of their operations "including reorganization and reduction of capacity of the less efficient plants."

5. The Grantee will provide evidence that the agroindustries (cotton and rice) will reimburse all outstanding crop credit for the 1985 crop year. SONACOS will reimburse the crop credit and interest owed to the BCEAO with respect to groundnuts for crushing. Pending the availability of funds and appropriate approvals, the second tranche of five million dollars will be disbursed after SEIB has reimbursed the totality of the capital plus interest owed with respect to purchases of groundnuts for crushing for the 1985 crop year.	Satisfied. Letters BNDS 12/31/85 and BCEAO 1/4/86.	ESF IV
6. Reimbursement by SEIB of the totality of capital plus interest owed on purchases of peanuts for crushing for the 1985 crop year.	Satisfied.	ESF IV

Related Conditionality: These issues were part of the discussion leading to the SONACOS/SEIB contract plan called for under SAL II.

7. The Grantee shall confirm that there will be no more direct Grantee subsidy to oil crushing firms (with the possible exception of the seeds sector) after the end of 1985.	Satisfied. SONACOS's loss on exported groundnut oil (CFAF 11.0 bn) more than covered profit on imported vegetable oil (CFAF 5.6 bn) and from payment of CPSP arrears (CFAF 6.3 bn).	ESF IV

Related Conditionality: In a related conditionality, SAL II specifies that the state's subsidy to cover the oil mills fixed costs will be cut in half.

Agricultural Inputs

8. The Grantee agrees to enforce timely payment, at least through CY 1986, by oil crushing firms of all customs duties and taxes on imported vegetable oil.	Partially Satisfied. (Huber: "Not Satisfied.") Taxes on imported vegetable oil reestablished in August 1986, also on exported peanut oil, but suspended to help crushing firms offset deficits on exports due to sharp decline in world groundnut oil prices.	ESF IV
9. that an independent detailed audit of SONACOS will be completed before the end December 1986, of its processing and management units; and	Delayed. Arthur Young audit began in December 1986.	ESF IV

Related Conditionality: This issue was part of the discussion leading to the SONACOS/SEIB contract plan called for under SAL II.

10. that oil crushing firms will develop a cost efficient means of managing a peanut security stock beginning the 1986/87 crop year.	Partially Satisfied. Security seed stock limited to 60,000 MT SONACOS/SEIB to sell seed stock to farmers for cash beginning in May 1987. Farmer-owned seed stock in SONACOS's warehouses incur storage charges; it was not clear whether they actually did pay storage charges. No mention in ESF documentation of the status of conditionality as of ESF V	ESF IV

	in terms of efficiency of management.	

Related Conditionality: SAL II called for a reduction in the security stocks and measures to help farmers store their own seeds or purchase from oil mills at cost.

11. The Grantee will confirm that SONACOS is actively attempting to collect from farmers the peanut seed credit issued during crop year 1986/87, and will provide a status report on payments to date. If that credit is not repaid by the farmers, SONACOS will absorb the loss.	Satisfied. Letter from Min. confirms that SONACOS is trying to collect on credit. As of March 15, 1987, the CFAF 2.961 bn has been completely recovered by recuperation of seed debt.	ESF V

Related Conditionality: These issues were part of the discussion leading to the SONACOS/SEIB contract plan called for under SAL II.

12. The Grantee will confirm that an audit of SONACOS has been initiated.	Delayed. (Huber: "Not Satisfied.") Amended: audit initiated Spring 1987, but delayed due to dispute over terms of reference. CCCE took financing over from World Bank and broadened study to whole peanut sector.	ESF V
13. The Grantee will provide evidence that the crop year 1986/1987 peanut seed credit has either been repaid by the farmers or been absorbed by SONACOS.	Satisfied. 100 percent repaid by cooperatives.	ESF V
14. The Grantee will provide a substantive report on the SONACOS audit.	Not Satisfied. Terms of reference received by USAID but audit still not contracted for.	ESF V

Related Conditionality: SAL III calls for an audit of the groundnut processing industry.

15. The GOS will provide to USAID the preliminary results of the SONACOS audit and peanut sector study financed by the CCCE.	Satisfied 11/88. Audit.	ESF VI
16. The GOS will confirm its timetable for progressive reduction and elimination of the subsidy		ESF VI

for treatment of peanut seeds, namely (in billions of CFAF): 1986/87 - 1.0; 1987/88 - 0.5; 1988/89 - 0.35.		
17. The GOS will approve and begin implementation of its action plan for negotiating the special agreement with SONACOS, in light of the audit financed by the CCCE mentioned in the section above.		ESF VI

Related Conditionality: These issues discussed under SAL II during negotiation of contract plan with SONACOS, and under SAL III in call for reform in the groundnut processing industry.

H. SAED / CONTRACT PLANS

1. Contract between GOS and oil crushing firms on management of seed stock.	Satisfied.	ESF III

Related Conditionality: See comments under **GROUNDNUTS / SONACOS** above.

2. Draft contract plan between GOS and SAED acceptable to USAID.	Satisfied.	ESF III
3. Contract plans acceptable to AID between SOMIVAC and SODEVA and GOS signed by June 30, 1985.	Delayed. Drafts under review.	ESF III
4. Signature of contract plan between GOS and SAED by January 31, 1986.	Satisfied.	ESF III

Related Conditionality: These issues were discussed during SAL I negotiations. SAL I required the substance of a contract plan for SAED by 12/31/80.

5. The third SAED *lettre de mission* will be adopted by the GOS with the approval of the donors and will have been signed by SAED and the GOS.	Satisfied. Signed 11/87, USAID received it 3/88.	ESF VI
6. The GOS and SAED will establish a timetable for withdrawal of SAED from credit programs in the Senegal River Valley in favor of the CNCAS and other participating banks in the context of the third SAED *lettre de mission*.	Satisfied. Third *lettre de mission* (11/87) established timetable.	ESF VI

7. The GOS will present to USAID confirmation of initial implementation of the plan for replacing the agricultural credit function of SAED by the CNCAS and other participating banks in the Senegal River Valley according to the timetable cited in section above.	Not Satisfied as of 9/89.	ESF VI

Related Conditionality: SAL II includes reference to reorganization of SAED in accordance with the *lettre de mission*. SAL III extends coverage of CP process to SAED and SOMIVAC in 1987.

I. RDAs

1. SONAR and STN will be liquidated by May 31, 1985.	Satisfied.	ESF III

Related Conditionality: RDAs were part of general Bank/Fund dialogue.

J. PROGRAMS WITH OTHER DONORS

1. GOS will agree with IMF on 1983/1984 Standby program.	Satisfied.	ESF I
2. GOS will provide USAID with copies of reports to IMF and other donors regarding compliance with stabilization program.	Satisfied.	ESF II
3. GOS will comply with terms and conditions of IMF Standby.	Satisfied.	ESF II
4. GOS will implement reforms in the agriculture sector as agreed with USAID and as consistent with the new sector policy being prepared by GOS with donor help.	Satisfied. NAP announced in March 1984. Action begun on implementation including elimination and restriction of RDAs.	ESF II
4. GOS agrees to comply with terms and conditions of 1984-85 Standby if one is concluded.	Satisfied.	ESF III
5. Over next 12 months GOS will increase its receipts as a percentage of GDP by 2 percentage points.	Not Satisfied. "With IMF and USAID help in FY 1986 revision of tax and	ESF III

customs code should help GOS to achieve this target."

Related Conditionality: These issues were part of IMF conditionality and were discussed during the November 1983 donor meeting in Dakar.

K. ECONOMIC POLICY REFORM MANAGEMENT

1. Periodic consultation on economy.	Satisfied. Consultations intense.	ESF I
2. The Grantee will provide confirmation that a procedure is in place for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss (a) progress on agricultural reform and other aspects of structural adjustment and (b) the status of analysis and decisions related to structural adjustment measures proposed or being implemented.	Satisfied. Letter from Min. Econ. and Finance confirms.	ESF V
3. USAID will determine that the procedure for holding quarterly meetings between USAID and the GOS on progress and structural adjustment is functioning satisfactorily.	Satisfied. Regular quarterly meetings held.	ESF V
4. The Grantee will provide confirmation that the procedure will continue for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss (a) formulation and (b) implementation of structural reform.	Satisfied. Quarterly meetings continue.	ESF VI
5. USAID/Senegal and the GOS will hold at least one quarterly meeting on policies related to structural adjustment after release of the first tranche of ESF VI.	Satisfied. Quarterly meetings continue.	ESF VI

L. BANKING

1. The Grantee will provide the terms of reference of a study on the constraints limiting the effectiveness of the banking system to support small and medium scale enterprises.	Satisfied. Study.	ESF V

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2. The Grantee will provide a summary satisfactory to USAID of the interim results of the study of constraints on the banking system for channeling credit to small and medium scale enterprises, and will confirm its intentions to remove such constraints.	Satisfied. Study by Charbel Zarour completed 11/87.	ESF V

M. WHEAT

<u>Maximizing Positive Péréquation on Wheat Imports</u>		ESF VI
1. Grantee will provide evidence that full payment of the *péréquation* on wheat purchased in 1987 and 1988 to date has been made;	Satisfied. 12/28/88 letter from Min. Econ. and Finance confirms full payment by millers.	ESF VI
2. Grantee will provide evidence that the current agreement with the millers will be terminated before October 31, 1988 and negotiations on a new agreement will be undertaken.	Satisfied. 12/28/88 letter from GOS confirms termination of agreement.	ESF VI
3. The new agreement will specify that (a) wheat imported commercially into Senegal, for delivery after November 1, 1989, will be acquired through a process of public international tender conducted or supervised by the CPSP; (b) the lowest qualified bidder fulfilling the conditions of the tender under this process will be awarded the contract; (c) the *péréquation* on wheat imports will be calculated on the basis of the awarded contract price; (d) the *péréquation* will be paid when the wheat is taken from the port of Dakar either in cash or by a bank draft payable in ninety days. The Grantee will make available to USAID, after the wheat is taken from the port of Dakar, all documents that demonstrate that all of the wheat *péréquation* due has been collected in accordance with (a) through (d) above, within the required time limit.	Satisfied. Negotiations on new agreement have been undertaken. However, no mention in project implementation letter of substance of agreement.	ESF VI
4. Since the terms of the current agreement will be operative until October 31, 1989, in the interim (November 1, 1988 - October 31, 1989) (a) the reference price for calculating the *péréquation* on wheat imports will be set on the basis of the lowest world price taking into account all subsidies provided	Huber: "Satisfied." No status given in project implementation letter. Although millers were to explain basis of *péréquation* they had not by 8/89. In	ESF VI

by the exporting countries; and consultations to the greatest extent possible, in order to ensure adequate coverage of wheat exporters.	addition they have not yet paid the *péréquation* for this year.	
5. The Grantee will provide evidence that the *péréquation* on wheat purchased in CY 1988 has been fully paid.	Huber: "Satisfied" by letter of Min. of Econ. and Finance, 12/28/88.	ESF VI
6. The Grantee will provide evidence that the GOS has negotiated with the millers a new agreement containing the points noted in section above.	Not Satisfied as of 9/89, but believed to be satisfied in late 1989.	ESF VI
7. The reference price for the *péréquation* on wheat imports for the period November 1, 1988 - October 31, 1989 has been determined according to the procedure described in section above. USAID will verify the international price quotations on which the reference price was set.	Not satisfied as of 9/89.	ESF VI

N. ENCOURAGING PRIVATE SECTOR AGROINDUSTRY

1. The GOS will prepare and present to USAID the terms of reference for a study of ways to expand private sector agroindustry in the Senegal River Valley. Such a study will take account of other on-going research related to this topic. The study will be funded under ESF VI.	Satisfied 11/88. Study.	ESF VI
2. The GOS will prepare an action plan for encouraging expansion of private sector agroindustry in the Senegal River Valley identified in the study specified in the section above and other studies on the Valley.	Not Satisfied as of 9/89.	ESF VI

Related Conditionality: A comparable study was done by the Foreign Investment Advisory Service of the World Bank Group.

Source: S. Keener, "Structural Adjustment in Senegal: Role of the U.S.," prepared for Elliot Berg Associates, September 1989; and J. Huber, "Evaluation of the Economic Support Fund (ESF): USAID/Senegal Program Grant Years IV and V," TvT Associates, September 1989.