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SENEGAL

PROGRAM ASSISTANCE APPROVAL DOCUMENT

AFRICAN ECONOMIC POLICY REFORM (AEPRP-II)

Program Grant (685-[illegible])

TECHNICAL SUPPORT GRANT (685-0299)

Submitted: September 9, 1989

Authorized: December 14, 1989

PD ABA-884
54947

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Timothy J. Bork

SUBJECT: Senegal FY 1990-91 African Economic Policy Reform (AEPRP-II) Program Grant (685-0292) and Project Grant (685-0299)

I. Problem

Your approval is requested for a $35 million grant to Senegal pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, and the Development Fund for Africa (DFA) appropriation. This grant consists of: (a) a $32 million sector program grant to be disbursed in five tranches over FY's 1990, 1991 and 1992 when conditions precedent have been met; and (b) a $3 million project grant for studies and technical assistance in support of Government of Senegal (GOS) banking sector adjustment measures. The total life of program funding of $35 million will be obligated as follows: $25 million in the first quarter of FY 1990 and $10 million in the second quarter of FY 1991. Of the $25 million to be obligated in the first quarter of FY 1990, $22 million will be for the Program Grant (685-0292) and $3 million will be for the Project Grant (685-0299).

II. Background

Senegal is in its fifth year of moderate economic recovery after more than two decades of negative per capita growth caused by recurrent droughts, oil shocks, fluctuating prices for its major products (peanuts, phosphates), and counterproductive economic policies adopted after independence. Although Senegal has a limited natural resource base, a high rate of population growth and erratic agricultural production, policy reforms supported by expanded donor assistance [since mid-1983] and generally improved rainfall [since 1985] have begun to show positive results. [Annual growth of Gross Domestic Product (GDP) averaged 3.4 percent over the past four years.]

Nonetheless, Senegal's economic recovery remains fragile. Continued reform is necessary in the agricultural and industrial sectors, and in the tax code. A.I.D. is actively aiding the GOS reform process, including a FY 89/90 ESF grant of $20 million in support of a simplified tax system. However, despite recent GOS reform efforts, Senegal is experiencing a near-term crisis of stability and liquidity in its banking system which is undermining the entire reform process. This crisis requires short-term stabilization measures and long-term reforms to restore stability and increase the competitiveness, efficiency and outreach of the banking sector if it is to properly perform its role of mobilizing domestic savings for localized investment in support of other GOS reforms.

Recent improvements in fiscal and monetary policy have already set the stage for required improvements in the banking sector, but are themselves insufficient to address the overhang of bad debt remaining from the early 1980s, the current liquidity crisis and the structural problems of the banking sector itself.

As the GOS now moves toward policies promoting private sector expansion, a significantly strengthened banking sector is required to more effectively mobilize Senegal's domestic savings and increase its current low level of domestic investment, thus decreasing heavy reliance on external financing to close the savings-investment gap. In addition, a strengthened, more independent, transparent and competitive banking sector is also required to reduce Senegal's comparatively high capital/output ratio by improving the allocation of investment resources.

III. The Program

The AEPRP-II Grant Program recognizes and responds to Senegal's need for program assistance to restructure its banking sector. The program purpose is to help establish a viable banking system characterized by adequate levels of solvency, liquidity and profitability, by increased sectoral and term diversification, and by increased mobilization of domestic savings. Objectives are:

1. improved inspection and supervision of banks;
2. privatization, restructuring and improved management of banks;
3. accelerated recovery of bad debts;
4. increased mobilization of domestic savings; and
5. improved allocation of credit and outreach to all sectors of the economy.

Immediate beneficiaries include current and future bank depositors, customers, managers, employees and shareholders. A broader class of beneficiaries includes entrepreneurs, employees and customers of existing and future enterprises. Literally, the entire economy will benefit from increased savings, improved allocation of credit and general expansion as capital markets are liberalized, broadened and deepened.

The program will cover a three-year period beginning in December 1989. The $32 million sector program grant portion of the Senegal AEPRP-II, in conjunction with A.I.D. conditionality, is designed to increase the competitiveness, transparency, efficiency, flexibility and outreach of the banking sector. The conditionality of the sector program grant improves the internal and external management and control systems needed to prevent a recurrence of the present crisis, while assisting the banking sector to more fully address development needs by allowing it to prioritize loans and investment according to the risk assessments of the banks themselves. These measures include reducing the GOS share of bank ownership and its influence on credit allocation; consolidating and/or liquidating unprofitable banks; increasing and improving bank inspection and supervision, and reducing taxation of savings. Because of the institution-building character of many of the reforms, an estimated $3 million of the $35 million program will be reserved for associated technical assistance measures, including developing systems for accelerated recovery of bad debt, improved bank management, bank privatization, monetary and financial studies, and program implementation, monitoring and evaluation. Local currency made available by the sector program grant will be used to reimburse the GOS for accelerated reductions in its liabilities to the banking system.

IV. Analyses

1. General

The Executive Committee Program Review (ECPR) met on September 21, 1989, and found that the economic, financial, institutional and impact analyses contained in the Program Assistance Approval Document (PAAD) satisfactorily justify the need for this sector support program.

The ECPR further concluded that the PAAD should be revised as follows: the purpose statement should be modified; the end-of-project status (EOPS) indicators should be quantified; details supporting the estimated technical assistance costs should be indicated; the discussion on local currency uses should include a statement of the expected developmental impact; and a section should be added outlining the program's developmental hypothesis (that a viable banking system will, over time, increase the provision of financial services and other benefits to AID's target groups) and establishing a monitoring system for tracking the necessary variables to confirm this hypothesis. These changes have been incorporated in the revised PAAD.

2. Human rights

Senegal is a functioning democracy and no issues exist with respect to human rights.

3. Gray Amendment

Given the Bureau's continuing efforts to maximize procurement involving Gray amendment entities, procurement requests for technical assistance will strongly encourage the participation of minorities and women.

V. Conditions Precedent (CP) and Covenants

The conditionality for the program is designed to reduce GOS ownership to less than 25% of any bank; improve bank management by allowing managers to make lending and personnel decisions without GOS interference; reorganize, consolidate and/or close illiquid or insolvent banks with appropriate BCEAO oversight; establish targets and timetables for recoveries of bad debt; encourage the mobilization of domestic savings; increase the frequency of BCEAO inspections and improve banking supervision, and establish the level of funding the GOS will grant to the Senegal Mission in support of general operating expenses.

Implementation Plan and Accounting Procedures

1. Cash Disbursement

Details on the transfer mechanism and accounting procedures are set out in the Draft Program Grant Agreement submitted as Annex I along with the PAAD. The procedures set forth in the Draft Program Agreement will be incorporated into the provisions of the the final Program Grant Agreement being signed with the GOS.

Senegal is a member of the West African Monetary Union (WAMU), which renders the tracking of dollar disbursements impractical as concluded in 88 State 431. Accordingly, the interim guidance applicable to ESF cash disbursement programs in WAMU countries and the procedures for carefully tracking counterpart CFA described in the above-mentioned cable will be implemented by the Mission. This program was informally brought to the attention of the relevant Congressional staff members and is not considered to be covered by the dollar tracking requirements contained in Section 592 (b) of the FY Appropriations Act.

2. Project Grant

The technical assistance and studies to be funded under a complementary project grant under AEPRP-II will include consultancy services for accelerated recovery of bad debt, improved bank management and bank privatization as well as overall implementation, monitoring and evaluation of the program. Funds are also provided for studies of monetary and financial policies.

VII. Major Implementing Agencies

The management of the Program Agreement Grant funds of $32 million will be the responsibility of the GOS's Ministry of Economy and Finance. The management of the Complementary Grant funds of $3 million for studies and technical assistance will be the responsibility of USAID/Senegal in cooperation with the GOS Ministry of Economy and Finance.

A.I.D. Officers responsible for the implementation of this Grant are:

Mr. Richard Greene
USAID/Senegal

Mr. Barry Burnett
AFR/PD/SWAP

VIII. Waivers

There are no waiver requests contained in this program.

IX. Justification to Congress

The Congressional Notification for this program was forwarded to the Congress on November 8, 1989. The fifteen day waiting period expired on November 23 without objection. You approved a 121 (d) determination for this program on August 31, 1989.

XI. Recommendation

That you sign (a) the attached Program Assistance Approval Document (PAAD) facesheet and thereby approve the program, including a life-of-project funding level of $35 million, and authorize the first year's funding of $22 million for the sector program grant component of the Senegal African Economic Policy Reform Program(AEPRP-II), 685-0292, and (b) the attached Project Authorization and Project Paper (PP) facesheet and thereby approve life of project funding of $3 million for the studies and technical assistance component, 685-0299.

Attachments:

- AEPRP-II PAAD
- AEPRP-II Project Authorization
- AEPRP-II Project Paper Facesheet

Clearances: AFR/SWA:PDichter ______
PPC/PB:RMaushammer ______ 11/20/89
GC/AFR:PJohnson (Draft) ______
AFR/MDI:WWeinstein ______
DAA/AFR:ELSaiers ______
AFR/DP:JWestley ______ 11/29/89

Drafter: USAID/SENEGAL:MBeye/AFR/PD/SWAP:BBURNETT/RKERR:6829P

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(AEPRP-II)
FY 1990 - 1991

Banking Sector Reform
(685-0292/0299)

6021M

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List of Acronyms

AEPRP	African Economic Policy Reform Program
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BCS	Banque Commerciale du Sénégal (renamed ASSURBANK)
CCCE	French Caisse Centrale de Coopération Economique
CFAF	CFA Franc (monetary unit of the West African Monetary Union)
CIDA	Canadian International Development Agency
CIFPB	Centre International de Formation de la Profession Bancaire (Paris)
CONT	USAID/Senegal-Controller's Office
CSA	Commissariat à la Sécurité Alimentaire
ESAF	Enhanced Structural Adjustment Facility
ESF	Economic Support Fund
FDIC	Federal Deposit Insurance Corporation
FONGS	Fédération des Organisations Non Gouvernementales du Sénégal
FY	Fiscal Year
GC/RLA	General Counsel/Regional Legal Advisor
GDP	Gross Domestic Product
GOS	Government of Senegal
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEE	Initial Environment Examination
IMF	International Monetary Fund
IQC	Indefinite Quantity Contract
MOEF	Ministry of Economy and Finance
NAP	New Agricultural Policy
NASA	National Aeronautical and Space Administration
NIP	New Industrial Policy
ONCAD	Office National de Coopération et d'Assistance au Développement
PAAD	Project Assistance Approval Document
PAIP	Project Assistance Initial Proposal
PDO	USAID/Senegal-Project Development Office
PFP	Policy Framework Paper
PP	Project Paper
PRM	USAID/Senegal-Program Office
PRM/EA	USAID/Senegal-Program Office/Economic Analysis Unit
RDA	Regional Development Authority
RFP	Request for Proposals
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SAF	Structural Adjustment Facility
SONACOS	Société Nationale des Oléagineux du Sénégal
SONEPI	Société Nationale d'Etudes et de Promotion Industrielle
TOR	Terms of Reference
TPS	Taxe sur les Prestations de Services
UMOA	Union Monétaire Ouest Africaine (=WAMU)
UN	United Nations
UNIFIL	United Nations Interim Force in Lebanon
USAID	United States Agency for International Development
WAMU	West African Monetary Union (=UMOA)

6637P

CLASSIFICATION:

AID 1120-1 (8-86)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: (685-0292) 685 K- 611

2. COUNTRY: Senegal

3. CATEGORY: Program Grant - African Economic Policy Reform Program (AEPRP-II)

4. DATE: August 31, 1989

5. TO: Walter Bollinger, Acting AA/AFR

6. OYB CHANGE NO.:

FROM: Sarah Jane Littlefield, Mission Director

8. OYB INCREASE:

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF: $25,000,000

10. APPROPRIATION - ALLOTMENT: 72-1101014 GSSA-90-31685-KG39 (014-61-685-50-53-

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 31 DEC 89-30 JUN 92

14. TRANSACTION ELIGIBILITY DATE:

15. COMMODITIES FINANCED:

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	$2,700,000
Limited F.W.:		Industrialized Countries:	
Free World:	$ 3,000,000	Local:	$ 300,000
Cash:	$22,000,000	Other:	

18. SUMMARY DESCRIPTION The purpose of the three-year, 35 million dollar AEPRP-II for Senegal (685-0292/0299) is to help establish a viable banking system in Senegal characterized by adequate levels of solvency, liquidity and profitability, by increased sectoral and term diversification, and by increased mobilizaiton of domestic savings. The proposed grant from the Development Fund for Africa (DFA) covers a three-year life of program: 25 million dollars will be obligated in FY 1990, and 10 million dollars in FY 1991. Of the total amount, 32 million dollars will take the form of a sector program grant (685-0292). Three million dollars will be earmarked for associated technical assistance measures (685-0299) including: (1) consultancies for accelerated recovery of bad debt, for improved bank management, and for bank privatization; (2) studies of monetary and financial policies; and (3) program implementation, monitoring, and evaluation. The local currency made available under the sector program will be used to accelerate repayment of government liabilities to the banking system. Of the 25 million dollars to be obligated in FY 1990, 22 million dollars will be for the sector program grant, and three million dollars will be for associated technical assistance measures.

19. CLEARANCES	DATE
AFR/PD:TBork	12/6/89
GC/AFR:PJohnson (Draft)	
PPC/PB/C:RMaushammer	11/20/89
PFM/FM:RBonnaffon	12/4/89
AFR/SWA:PDichter	11.16.89
AFR/DP:JWestley	11-21-89
AFR/CONT:RKing	11-21-89

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE

TITLE

CLASSIFICATION:

I. Summary and Recommendations

A. Problem

The Senegalese banking system is in serious trouble, meeting neither the current needs of its existing customers nor the development needs of the country. Several of the country's largest banks have bad and doubtful debts which greatly exceed capital and reserves. By September 30, 1988, bad and doubtful debt of the banking system as a whole exceeded $721 million (CFAF 216 billion) equivalent to some 45 percent of loans and to 28 percent of total assets. This figure includes CFAF 78 billion of debt from the former rural development parastatal (ONCAD), and some CFAF 46 billion of outstanding crop credit which was reclassified as ordinary credit on December 31, 1988.

Most Senegalese banks currently have serious liquidity problems that limit their ability to make new loans, and a mismatch is also frequently apparent between short-term liabilities and short-term assets. As a result, a number of banks are having difficulty in honoring deposit withdrawal requests, in processing trade credits, and in clearing checks through the Central Bank of the West African Monetary Union (BCEAO). A generalized liquidity crisis is gradually spreading, which is also affecting sound banks, and acting as a brake on overall economic activity. Government's inability to realize tax revenues paid via checks drawn on illiquid banks is also a growing problem, and one that is beginning to seriously affect the Government's cash flow, including its ability to meet government payrolls. As of June 30, 1989, Government holdings of checks drawn on illiquid banks amounted to some CFAF 22 billion ($73 million), equivalent to more than nine percent of annual tax revenue.

In the absence of a system of deposit insurance, a generalized desire to withdraw deposits, leading to closure of some banks, would place significant moral and political pressures on Government to protect all depositors, but particularly the smaller ones. In addition, Government would have an immediate legal obligation to cover outstanding loans of affected banks when such loans have been discounted with the BCEAO. The total of such discounts on September 30, 1988 amounted to some $609 million (CFAF 195 billion), and the total discounts outstanding of the nine problem banks alone amounted to some $541 million (CFAF 173 billion).

The Senegalese banking sector is currently characterized by a relative inability to mobilize domestic deposits that is only partially explained by the growing lack of public confidence in the system. Lack of a developed branch network, lack of marketing, poor customer service, the lack of interest payments on demand deposits, and double taxation of interest earnings on bank deposits have been additional explanatory factors. High transactions costs, high wages, overmanning, and low productivity have contributed to a marked preference for rediscounting of loans with the BCEAO in lieu of mobilizing domestic resources, which can be labor intensive.

The high cost of central bank rediscounting, and the high interest costs associated with attracting marginal funds to the more risky banks, have contributed to reducing the profitability of the banking system in recent years. In addition, non-performing loans have grown as a proportion of total assets acting on the income side to reduce profitability as well.

In its current condition, the Senegalese banking system taken as a whole is less and less able to perform the traditional banking functions of mobilizing domestic savings, of providing a safe repository for precautionary and transactions balances, of facilitating everyday commercial activities, and of efficiently allocating financial resources to either traditional or non-traditional customers.

The current crisis calls for a major reform of the banking sector, an approach which the Government of Senegal has now accepted. The World Bank, the French, and USAID have helped the Government of Senegal to define the required reform program, and together with the BCEAO and other donors, are helping to finance the program and related technical assistance.

B. Amount and Objectives

The purpose of the proposed three-year, 35 million dollar AEPRP II for Senegal (685-0292/0298) is to help establish a viable banking system in Senegal, characterized by adequate levels of solvency, liquidity and profitability, by increased sectoral and term diversification, and by increased mobilization of domestic savings.

The proposed grant from the Development Fund for Africa (DFA) covers a three-year life of project, with $25 million to be obligated in U.S. FY 1990, and $10 million in FY 1991. Of the total amount to be obligated, $32 million will take the form of a sector program grant, and $3 million will be earmarked for associated technical assistance, including: (1) consultancies for accelerated recovery of bad debt, for improved bank management, and for bank privatization; (2) studies of monetary and financial policies; and (3) program implementation, monitoring, and evaluation. The $32 million sector program grant will be disbursed in five trenches over FY's 1990, 1991 and 1992. The local currency counterpart of sector support will be used to accelerate repayment of government liabilities to the banking system. A $2 million equivalent of local currency will be earmarked to finance a trust fund in support of the administrative operations of the A.I.D. Mission in Senegal. The $25 million proposed for obligation in FY 1990 will be in the form of a $22 million sector program grant (including $2 million of local currency equivalent to finance the operating expense trust fund), and a $3 million technical assistance grant. The $10 million to be obligated in FY 1991 will be in the form of a $10 million sector program grant.

USAID/Senegal puts relatively less emphasis on short-term stabilization, and relatively more emphasis on those reforms that will ensure the long run stability of the banking system on a self-financing basis. Such reforms include improved inspection and supervision of banks, privatization and restructuring of banks, and improved bank management. In addition, USAID also emphasizes the desirability of improving mobilization of domestic savings, expanding the deposit base, and expanding the participation of individual Senegalese in the ownership of banks. Mobilization of domestic savings will require not only improved perceptions of the soundness of the banking system, but also improved incentives in the form of higher after tax interest rates for savers, better customer service, and better access to banks. Higher and more flexible interest rates also have a role to play in improving the allocation of credit in the Senegalese banking system.

Lending to small and medium-scale enterprises and to agriculture must be made profitable to commercial banking institutions in the medium to long-term, or must be provided through specialized institutions where depositors, investors, and the BCEAO itself are no longer at risk. In the near-term, methods must found to finance crop credit (credit de campagne) that do not negatively affect the return to profitability of the banking system.

Given the above concerns, the objectives (Program Outputs) of the proposed three-year AEPRP-II for Senegal are the following:

1. Improved Inspection and Supervision of Banks;

2. Privatization, Restructuring, and Improved Management of Banks;

3. Accelerated Recovery of Bad Debts;

4. Mobilization of Domestic Savings; and

5. Improved Allocation of Credit and Improved Outreach to All Sectors of the Economy.

C. Donor Coordination

Realizing the seriousness of the underlying problems of the banking sector, the Government of Senegal in 1987 commissioned an independent World Bank-financed study by a Paris-based consulting group (Centre International de Formation de la Profession Bancaire - CIFPB). On the basis of the study, and additional work by the Ministry of Economy and Finance, the Government of Senegal convened an initial meeting of external donors in August 1987, and presented an overall, financial rehabilitation plan (Objectifs et Modalités du Plan d'Assainissement du Secteur Bancaire). The World Bank, the French and the U.S. provided extensive written and oral reactions to the Senegalese Plan, requesting additional detailed economic and financial data, and strongly suggesting that the long-term stability of the banking sector would require institutional and policy reforms at the level of individual banks, at the level of the BCEAO, and in the monetary, credit, and regulatory policies of the state. The IBRD, the French, the U.S., and the IMF were agreed from the start that the financial burden of restructuring the banking sector would have to be shared by all parties concerned including the BCEAO, the GOS Treasury, and individual shareholders.

Since August 1987, close coordination has continued among the IBRD, the French, and the U.S., including participation of all three parties in a joint project pre-appraisal mission in May 1988. The conclusions of the joint mission were transmitted to the Ministry of Economy and Finance in the form of an Aide-Mémoire de la Mission Conjointe in late May 1988. A synthesis of the broad general views of the Government of Senegal, the IBRD, the French, the U.S., and the IMF on banking sector reform is currently contained in the Senegalese Medium-Term Economic and Financial Policy framework Paper (PFP) for 1988-89, formally agreed to in September 1988. A closely coordinated project appraisal mission in June 1989, and the simultaneous preparation by the GOS of its draft Declaration of Banking Sector Policy, have now formed the basis for parallel conditionality by the IBRD, the French, and the U.S.

The release of the first tranche of French assistance in June 1989 is fully consistent with the principles included in the PFP and in the draft Declaration of Banking Sector Policy. Release of the second tranche of French assistance is also consistent with such principles, and will also be conditioned upon release of the first tranche of IBRD assistance. During the summer of 1989 the IBRD and the U.S. have worked closely together to assure that both the timing and content of their respective conditionalities are highly consistent. The African Development Bank (ADB) has recently indicated its intention to co-finance the Senegalese banking sector reform program with the World Bank, with disbursement to be based on World Bank conditionality. The Canadian Government has now agreed in principle to finance technical assistance to the Ministry of Economy and Finance on a subject of mutual concern to all the donors: the mobilization of domestic savings and the provision of credit to small and medium-scale enterprises and to the informal sector.

In addition to technical assistance being provided by the Canadians, the U.S., and the IBRD, the external donors as a group will be providing some CFAF 34 billion ($115 million) of program assistance, equivalent to some 12 percent of the overall financing package of CFAF 284 billion ($947 million) which will be required to restructure the Senegalese banking sector. a/ Of the total program assistance package being financed by the external donors, the French will supply some 32 percent, the IBRD 26 percent, the U.S. 26 percent, and the ADB 7 percent, with ten percent still to be located as of late August 1989. The World Bank is now seriously considering the possibility of increasing its overall contribution both to cover this gap and to reduce the strain on the GOS budget of the bank restructuring program.

D. Implementation

Implementation of the overall program of banking sector reform in Senegal will require close continuing cooperation of the BCEAO, the Ministry of Economy and Finance, the domestic and foreign shareholders of Senegalese banks, and the major external donors. An overall financing package totaling some CFAF 284 billion ($947 million) will be required to recapitalize Senegalese banks in difficulty, to cover existing bad debts, and to provide for modest increases in bank liquidity. Of this overall financial assistance package, the BCEAO will finance some CFAF 126 billion (i.e. 44 percent), including refinancing of CFAF 64 billion of former parastatal (ONCAD) debt, and some CFAF 62 billion of non-performing assets of banks in difficulty. Other major contributors to the overall financing package for the banking sector include the GOS Treasury (20 percent of the total package), external shareholders and lenders (8 percent), private Senegalese shareholders (3 percent), recovery of bad debt (13 percent), and external donors (12 percent). The first tranche of the U.S. program assistance is anticipated for December 1989, and the final tranche is anticipated for December 1991. The terminal date for all disbursements, including disbursements for technical assistance, will be June 30, 1992.

Implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector will likewise require close cooperation among a number of organizations including BCEAO headquarters, the BCEAO Agency in Dakar, the Ministry of Economy and

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a/ At an assumed exchange rate of 300 CFAF = One U.S. dollar

Finance, and the National Credit Committee. Cooperation of the BCEAO over the past two years has been good, with the pace of reform accelerating since December 1988 under the direction of the new Governor of the BCEAO, Alassane Ouattara. At the initiative of Governor Ouattara, the BCEAO Board of Directors, and the Council of Ministers of the West African Monetary Union, met in Lomé during July 31 - August 1, 1989 to approve an accelerated program of reform of the monetary policies, regulations, and operating procedures of the BCEAO. Implementation of the new reform program will begin on October 1, 1989, with a series of planned reform measures scheduled for staged implementation through October 1990. Additional reform measures to be implemented by the Ministry of Economy and Finance, and by the National Credit Committee, will be initiated beginning October 1989 and extending through December 1991. More than half of the 36 billion of bad debt scheduled for recovery over the next five years will also have been achieved by December 1991, with recovery activities continuing after the cutoff date for disbursement of all donor assistance.

A New Bank (NB) is scheduled to open in October 1989 with a maximum GOS participation of 25 percent. It will have as its portfolio the current loans of the four formerly state-owned banks and perhaps those of Assurbank as well. The past due portfolio of these four banks (some CFAF 70 billion) will be handled by a separate recovery structure. The New Bank will keep 140 of the 515 employees of the four existing banks. The bank's management will be assisted by two technical assistance people (supplied by AID) in the areas of credit operations and internal bank management. According to the projections made by the Office of the Coordinator for Banking Sector Reform, the loan portfolio is expected to grow from CFAF 17 billion to CFAF 34 billion in five years, with an equal emphasis on growth of company, individual, and small and medium-scale credits. The bank expects to use the postal system to provide a network for savings account collection and the services of a mixed public/private consulting firm (SONEPI-Société Nationale d'Etudes et de Promotion Industrielle) to analyze and follow the small and medium-scale portfolio. Profits are expected to go from negative CFAF 30 million in year one to a positive CFAF 570 million in year five, with year two being the break even point.

E. Impact and Beneficiaries

The proposed program responds to Senegal's increased need for non-project assistance to ensure the stability of the banking sector in the near-term, and to reform the sector so that it can contribute efficiently to structural adjustments in the public, parastatal, industrial, and agricultural sectors. Such structural adjustments are required to meet the increasing demands for productive employment opportunities expressed, in part, in the election disturbances of 1988, and in the ethnic disturbances of 1989. The immediate beneficiaries of this program will include existing and potential bank customers, employees, managers, shareholders, and depositors. The broadest class of beneficiaries will include entrepreneurs, employees, and customers of existing and new enterprises that will benefit from increased savings, from increased availability of credit, from improved allocation of credit, and from related general economic expansion as capital markets are liberalized, broadened, and deepened.

A specific Action Plan is included to expand the availability of credit to small and medium-scale enterprises and agriculture, through the introduction of legal and financial innovations including, for example, mutual or cooperative credit societies or banks, with required technical assistance being provided by CIDA. A "New Bank" consolidating the sound portfolio of four former development banks and one small private bank will have as an important part of its target market both small and medium-scale depositors and small and medium-scale enterprises that traditionally have not been fully served by the banking sector in Senegal. A.I.D. will provide substantial technical assistance to the New Bank in order to improve its management and to enable it to find an external private partner. The consolidation of the five existing banks into a smaller, more profit oriented commercial bank, the discipline brought by an external private partner and the management assistance financed by A.I.D., together with a reformed policy environment, is expected to result in increased productivity of personnel, lower costs per transaction and higher net margins on small and medium-scale transactions than have been the norm in the past. Beyond such measures, the substantially reduced role of the Government in the banking sector as shareholder, borrower and guarantor of public, parastatal and private borrowings, is expected to have substantial positive implications for the GOS budget, increasing the availability of funding for the provision of essential infrastructure investments and services, including education, health care and rural development.

F. Conditionality

1. Conditions Precedent

Prior to disbursement of the indicated tranches under the Senegal AEPRP II, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Government of Senegal shall, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

- A legal opinion that the Program grant constitutes a legal and binding agreement for the grantee.

- Representatives: A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each person certified as to its authenticity.

- Bank and Account Number: A statement designating the bank and account number to which disbursement is to be made.

a. First Tranche ($12 million)- anticipated for December 1989

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of Credit Lyonnais Senegal does not exceed five percent of the total share capital of the bank;

(b) Evidence that the participation of the Government of Senegal in the ownership of CNCAS and BIAOS does not exceed 25 percent of the share capital of each bank;

(c) Evidence of the establishment of a new bank, incorporating the performing assets of the former public banks (BNDS, SONAGA/SONABANQUE, SOFISEDIT), together with copies of the new bank's manual of operating procedures, initial balance sheet, and projected income statement;

(d) A plan to refinance the non-performing assets of the BIAOS by the Government of Senegal and by the BIAO;

(e) A plan to refinance the non-performing assets of the BSK and of MFIS, or evidence of revocation of the operating licenses of BSK and of MFIS;

(2) Recoveries

(a) Evidence of the establishment by independent accounting firms of a data base analyzing the non-performing assets of the problem banks;

(b) Evidence of the establishment of a committee of experts, attached to the Ministry of Economy and Finance, to review quarterly progress reports by the Ministry of Economy and Finance on the recovery of bad debts in the problem banks;

(c) Evidence of the establishment of a recovery structure incorporating the non-performing assets of USB and of the former public banks (BNDS, SONAGA, SONABANQUE, SOFISEDIT), together with copies of the recovery structure's manual of operating procedures, initial financial statements, and financial projections;

(d) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 4.0 billion;

(3) Mobilization of Domestic Savings

(a) Evidence that the double taxation of interest earnings on bank deposits has been eliminated by suppression of the Taxe sur les Prestations de Services (TPS) on such earnings;

(4) Improved Allocation of Credit

(a) Evidence that the Government of Senegal has terminated the provision of guaranties to private or public firms seeking loans from the Senegalese banks, except in instances of express legislative approval;

(b) Evidence that the Government of Senegal has renounced the practice of imposing on banks operating in Senegal participation in financings undertaken at the initiative of the public authorities, including financing of crop credit;

(c) Evidence that the National Credit Committee has terminated its policy of administrative allocation of credit by sector (politique sectorielle du crédit);

(d) Evidence that the Central Bank (BCEAO) has decided upon the elimination, over time, of the prior loan authorization requirement by means of progressive significant increases in the credit threshold above which prior loan authorization by the National Credit Committee is required, and that the threshold is to be applied solely to control the quality of credit;

(e) Evidence that the National Credit Committee accepts the principle of elimination of the prior loan authorization requirement and, in agreement with USAID, will proceed with progressive, significant increases in the prior loan authorization threshold;

b. Second Tranche ($5 million)-anticipated for June 1990

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of BICIS does not exceed 25 percent of the total share capital of the bank;

(2) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 7.8 billion;

(3) Improved Allocation of Credit

(a) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

c. Third Tranche ($5 million)- anticipated for December 1990

(1) Recoveries

Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 12.6 billion;

(2) Improved Allocation of Credit

(a) Evidence that the National Credit Committee in collaboration with the BCEAO headquarters, and with the BCEAO Agency for Senegal, has formulated a Plan of Action to increase the flexibility of the administered system of determining bank-by-bank credit ceilings, and to progressively replace it with a system based on objectively verificable indicators including, for example, the ratio of reserves to total credit outstanding;

(b) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

(c) Evidence that the Government of Senegal has formulated a Plan of Action to expand the availability of credit to small and medium-scale enterprises, and to agriculture, through the introduction of legal and financial innovations including, for example, mutual or cooperative credit societies or banks;

d. Fourth Tranche ($5 million)-anticipated for June 1991

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of BIAOS does not exceed 18 percent of the share capital of the bank;

(2) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 16.6 billion;

(3) Improved Allocation of Credit

(a) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

(b) Evidence that the National Credit Committee has initiated implementation of the Plan of Action to replace administrative determination of bank-by-bank credit ceilings;

(c) Evidence that the Government of Senegal has initiated implementation of the Plan of Action to expand the availability of credit to small and medium-scale enterprises, and to agriculture;

e. Fifth Tranche ($5 million)- anticipated for December 1991

(1) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 19.2 billion;

2. Covenants

a. General

(1) The Government of Senegal agrees that it will not undertake any policy or action which would have the effect of changing any of the policies or actions undertaken by the Government in fulfillment of the conditions precedent of this agreement except as the parties may agree otherwise in writing.

b. Privatization, Restructuring, and Improved Management of Banks

(1) The Government of Senegal agrees to abstain from intervening in the management of banks so as to guarantee to bank managers, freely chosen by the relevant bodies, autonomy of decision-making, and full responsibility for their actions.

(2) The Government of Senegal affirms that it will promote interbank competition and free movement of interest rates within the context of banking regulations set by the Central Bank (BCEAO).

(3) The Government of Senegal agrees to substantially reduce its ownership in BICIS below the 25 percent maximum agreed in the Conditions Precedent to this Agreement, consistent with the possibilities for successfully marketing its shares to purchasers in the Senegalese private sector.

c. Recoveries

(1) The Government of Senegal affirms its neutrality with regard to the debtors of the Senegalese banks. The banks will have full latitude to diligently pursue bad debt recoveries whatever the status or individual characteristics of the debtor.

d. Improved Allocation of Credit

(1) The Government of Senegal affirms its support for inclusion of any non-performing credit guarantied by the Government of Senegal in the net position of the Government (Position Net du Government-PNG) with the BCEAO, following activation of any such guaranty. The Government of Senegal also affirms that it will actively support the efforts of the BCEAO authorities to arrive at a complete accounting of such credits guarantied by the Government of Senegal, and that it will actively assist the BCEAO authorities to continue to monitor the evolution of such credits.

(2) The Government of Senegal affirms that it will actively support phased implementation by the BCEAO authorities of a unified discount rate, aligned with the money market rate and with international interest rates, and permitting increased bank margins and increased access to credit for sectors of the economy formerly designated as priority.

e. Improved Supervision and Inspection of Banks

(1) The Government of Senegal agrees to request the BCEAO authorities to implement on-site inspections of each Senegalese bank on a schedule limiting the interval between inspections of individual banks to eighteen months or less.

(2) The Government of Senegal affirms its support for a regional Banking Control Commission to be established at the level of BCEAO headquarters, and empowered to review bank inspection reports, initiate audits, review audit reports, note infractions by banks, issue directives, impose sanctions and ensure follow-up. Sanctions will include denial of access to the operations and credit facilities of the BCEAO, removal of bank management officials, and closure of banks.

f. Administrative Operations of the A.I.D. Mission: The Government of Senegal agrees to contribute $2 million of local currency equivalent in support of administrative operations of the A.I.D. Mission in Senegal.

G. Recommendations

That the Acting AA/AFR sign: (1) the Program Assistance Approval Document (PAAD) facesheet and thereby approve life of project funding of $32 million for the cash transfer component of the FY 1990-91 AEPRP-II Program (685-0292); and (2) the attached Project Authorization and Project Paper (PP) facesheet and thereby approve life-of-project funding of $3 million for the technical assistance component of the FY 1990-91 AEPRP-II (685-0299).

II. Statement of the Problem

A. Macroeconomic Overview

1. Introduction

Senegal is entering its fifth year of moderate economic recovery after a trend of more than two decades of negative per capita growth caused by periodic droughts, oil shocks, fluctuating prices for its major products (peanuts, phosphates), and counter-productive economic policies adopted in the period after independence. Senegal continues to be faced with a limited natural resource base, a high rate of population growth, and erratic agricultural production. However, policy reforms supported by expanded donor assistance since mid-1983, and generally improved rainfall since 1985, have begun to show positive results, with annual growth of Gross Domestic Product (GDP) averaging 3.4 percent over the past four years.

Nonetheless, Senegal's economic recovery remains fragile. Continued reform of agricultural policies, and improved incentives to produce and consume local cereals, will be necessary to meet Senegal's ambitious goal of increased food self-reliance by the year 2000. Additional progress must also be made in implementing reforms of inappropriate labor laws, tax laws, administrative restrictions, and monopolistic business practices that have distorted and constrained industrial growth and limited the creation of off-farm employment.

Moreover, Senegal is currently experiencing a near-term crisis of stability and liquidity in its financial system which is hampering reforms elsewhere in the public, parapublic, industrial, and agricultural sectors. Short-term stabilization measures, and long-term reform measures, will be required to restore stability and to increase the competitiveness, efficiency, and outreach of the banking sector so that it can better perform its primary functions of mobilizing domestic savings and allocating resources to priority investment needs. Both increased national saving and improved allocation of investment resources will be required if Senegal is to accelerate its rate of development and to attain positive per capita income growth over the long-term through both good years and bad.

2. Economic Crisis, 1980-83

During the past decade, three droughts have seriously affected Senegal's national economy. The first two occurred in 1980 and 1981, and the third in 1984. Rainfall in 1985, although close to normal, was poorly distributed. Although agriculture and livestock accounted for only about 16 percent of recorded Gross Domestic Product (GDP) in the early 1980s, large fluctuations in agricultural output, with negative secondary effects on agricultural processing, on transport, and on commerce, contributed importantly to the negative growth rates of real GDP recorded in FY 1981, FY 1984 and FY 1985. (See Table 1 and Figure 1).

During the early 1980s, Senegal's difficulties in the agricultural sector were exacerbated by the existence of expensive and often inefficient structures including various regional development authorities (RDAs) and the omnibus rural development parastatal ONCAD (Organization Nationale de Coopération et d'Assistance pour le Development). Fiscal discipline deteriorated in other sectors as well with government expenditures rising to a peak of 31.9 percent of Gross Domestic Product in FY 1981. With revenues falling as a share of GDP, the overall government deficit also peaked in FY 1981, at 11.5 percent of GDP. Despite early control efforts, the overall government deficit remained as high as 8.2 percent of GDP in FY 1983. (See Table 2 and Figure 2).

Due in part to expanded government deficits, domestic demand consistently exceeded domestic supply during the late 1970s and early 1980s, with the resource gap averaging some 15 percent of GDP during the five-year period ending in June 1983. To finance this high level of domestic investment and consumption, the public sector had substantial recourse to external borrowing. During the five-year period ending June 1983, Senegal's disbursed medium and long-term public and publicly guaranteed external debt rose almost threefold to some CFAF 510 billion, equivalent to some 57 percent of GDP. This external borrowing overtaxed the country's debt-servicing capacity, and the Government had to seek a series of debt reschedulings beginning in 1981. In addition, Senegal incurred continuing balance of payments deficits which entailed sharp increases in net foreign liabilities of the Central Bank. Sizeable increases also occurred in government liabilities to the domestic banking system, a point which will be further discussed in the section below reviewing monetary developments.

Despite all efforts at mobilizing foreign and domestic financing, by end-June 1983, verified domestic payments arrears of the Senegalese Government totaled CFAF 55.7 billion, or 6.2 percent of GDP. In addition, beginning in August 1983, Government had to assume servicing the debts of the former rural development parastatal ONCAD. These debts were owed to local banks and totaled (with interest) some CFAF 94 billion, equivalent to 10.5 percent of GDP.

3. Response to the Economic Crisis since 1983

In an effort to deal with these serious problems, the Government of Senegal beginning in 1980 adopted a series of adjustment programs which have received significant external support. Initially the results achieved were unsatisfactory, not only because of the droughts of 1980 and 1981, but also because of weaknesses in policy implementation.

Since mid-1983 Senegal has successfully implemented an increasingly comprehensive program of financial stabilization and structural adjustment in keeping with its Medium and Long-Term Program of Economic and Financial Adjustment for 1985-92 which was approved at the first Consultative Group meeting for Senegal held in December 1984. Senegal has been supported in this program, and in the implementation of its New Agricultural Policy (NAP) and New Industrial Policy (NIP), by four IMF Standby arrangements, by

Table 1

SENEGAL: Gross Domestic Product, Growth Rate of Real GDP, and GDP Deflator, FY 1980-90

FY	GDP (Billion CFAF at Current Prices)	Growth Rate of Real GDP (Percent)	GDP Deflator (Percent)
1980	604.7	1.6	10.5
1981	648.6	-2.0	9.5
1982	757.0	6.5	9.6
1983	891.8	8.4	8.6
1984	977.5	-1.1	10.8
1985	1,083.8	-0.5	11.4
1986	1,223.1	4.2	8.3
1987	1,338.2	4.2	5.0
1988	1,432.9	4.4	2.5
1989	1,470.0 (est.)	0.6 (est.)	2.0 (est.)
1990	1,568.0 (prog.)	4.6 (prog.)	2.0 (prog.)

Source: Ministry of Economy and Finance. IMF. EBS/89/18 ; EBS/87/205 ; SM/86/59 ; EBS/84/267.
IMF and USAID estimates for FYs 1989 and 1990.

FIGURE 1

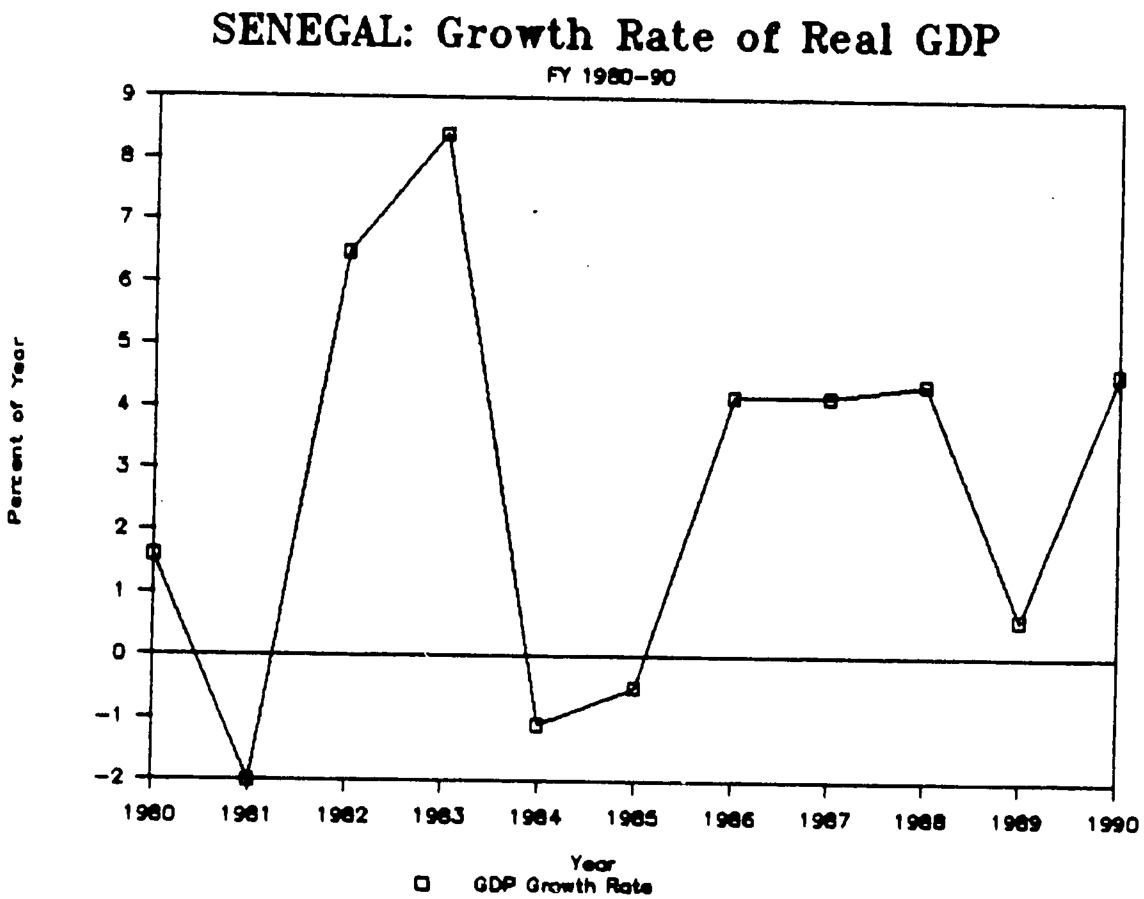


Table 2

SENEGAL: Government Expenditure, Revenue, and Budget Deficit
as a Share of GDP, FY 1980-90
(Percent)

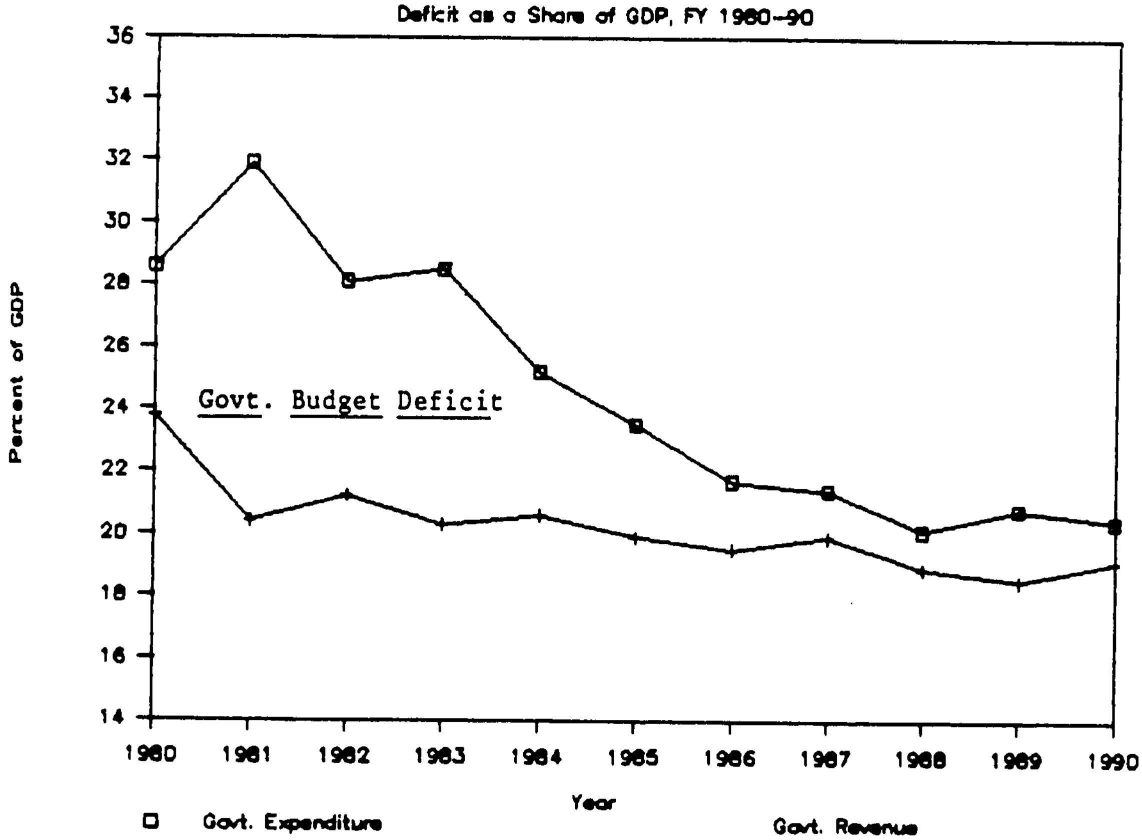
FY	Expenditure a_/	Revenue (Including Grants)	Deficit b_/
1980	28.6	23.8	4.8
1981	31.9	20.4	11.5
1982	28.1	21.2	6.9
1983	28.5	20.3	8.2
1984	25.2	20.6	4.6
1985	23.5	19.9	3.5
1986	21.7	19.5	2.3
1987	21.4	19.9	1.5
1988	20.1	18.9	1.2
1989	20.8 (est.)	18.5 (est.)	2.4 (est.)
1990	20.4 (prog.)	19.1 (prog.)	1.3 (prog.)

Notes: a_/ Including expenditure and net lending.
b_/ Commitment basis.

Source: Same as Table 1.

FIGURE 2

SENEGAL: Govt. Expenditure, Revenue and
Deficit as a Share of GDP, FY 1980-90



arrangements under the IMF Structural Adjustment Facility (SAF), by three Structural Adjustment Credits (SACs) from the World Bank, by other multilateral assistance (including debt relief), and by associated bilateral assistance (including assistance from USAID). A three-year Enhanced Structural Adjustment Facility (ESAF) with the IMF was approved in November 1988, and a fourth Structural Adjustment Credit with the World Bank was under negotiation during the summer of 1989.

Since mid-1983, substantial progress has been made in reducing the role of the Government in the economy and increasing the role of market forces. This progress was fully recognized at the second Consultative Group meeting for Senegal held in Paris in April 1987, and progress has continued since.

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 eliminated; and the Government has withdrawn from peanut seed distribution.

With regard to the New Industrial Policy, successive reductions have been made in quantitative trade restrictions and tariff barriers; Government has renounced its practice of entering into special agreements with individual manufacturers and is reviewing existing special agreements; some restrictions on hiring and firing have been eased; most price controls have been eliminated; and the investment code has been revised to clarify and limit the impact of investment incentives on the tax base.

At the macroeconomic level, positive per capita income growth was restored during FY 1986-88 reflecting the beneficial effects of structural adjustment measures, improved financial management, and improved weather. Economic growth which was negative in FY 1984 and FY 1985 averaged 4.3 percent in the subsequent three fiscal years. (See Table 1 and Figure 1). A growth rate of 4.2 percent was originally projected by the IMF for FY 1989 as well. The IMF currently estimates the actual growth may have been limited to 0.6 percent due in large part to poor rainfall distribution, to the locust invasion, and to the negative economic effects of Senegalese-Mauritanian ethnic disturbances. Senegal's food crop production dropped by some 18 percent during FY 1989 in comparison with FY 1988, and peanut and cotton production declined by some 25 percent. Secondary impacts on transport, processing, and commerce contributed to the overall showdown of economic growth, as did the destruction of some 80 percent of the retail network of convenience stores (Narr shops) formerly run by Mauritanians who were subsequently displaced. Assuming a return to better rainfall, and a quieter political situation, the IMF projects a growth rate of some 4.6 percent for FY 1990.

Budget stabilization results to date have been impressive. Relative to GDP, the role of the Government in the economy has been reduced during the 1980s by more than one-third. Government expenditure which accounted for 31.9 percent of GDP in FY 1981, and for 25.2 percent of GDP in FY 1984, was reduced to 20.1 percent of GDP in FY 1988. (See Table 2 and Figure 2). A somewhat higher level is estimated for FY 1989 (20.8 percent) owing to the increased deficits of certain Treasury correspondents (principally the Post

Office, and the Price Stabilization Board), and to the initial costs of restructuring the banking system (principally the initial refinancing of USB, BIAOS, and ASSURBANK). The share of government expenditure in GDP is programmed to resume its decline to 20.4 percent of GDP in FY 1990.

Although revenue reforms are only now beginning to have an impact, the overall budget deficit has been reduced from a peak of 11.5 percent of GDP in FY 1981 to 4.6 percent of GDP in FY 1984, and to 1.2 percent in FY 1988. A small surplus had been programmed for FY 1989, but this surplus was eliminated by negative developments in the agricultural, commercial, and banking sectors. As a result, the deficit climbed to an estimated 2.4 percent of GDP. A lower deficit (1.3 percent of GDP) is now programmed for FY 1990.

Senegal eliminated all external budget arrears in FY 1986, and internal arrears of the Government and public agencies were reduced by more than four-fifths between FY 1984 and FY 1988. One IMF program target was to eliminate all such domestic arrears by June 1989, but worsening economic conditions have postponed elimination of domestic arrears to June 1990.

Largely as a result of improved fiscal management, tighter monetary policy, and improved supply conditions, the gap between domestic savings and domestic investment closed sharply during the past five fiscal years. Although gross domestic investment remained steady at some 15 percent of GDP throughout the period, the virtual elimination of government dis-saving has reduced the savings gap by two-thirds from 14 percent of GDP in FY 1983 to 4.7 percent of GDP in FY 1988. (See Table 3 and Figure 3). A further reduction to an estimated 4.5 percent of GDP was achieved in FY 1989, with a programmed level of some 3 percent set for FY 1990.

A parallel decline in the current account deficit (including grants) from 14.0 percent of GDP in FY 1983 to 4.5 percent in FY 1989 is indicated in Table 4 and Figure 4. The current account deficit (excluding grants) underwent an even more dramatic decline as external grants fell from 7.7 percent of GDP in FY 1983 to an estimated 4.7 percent of GDP in FY 1989.

Senegal's outstanding external public debt, which had peaked at 93 percent of GDP in FY 1985, was reduced to an estimated 65 percent of GDP in FY 1988. The debt service ratio appears to have peaked a year later in FY 1989 (at a level equivalent to some 30.6 percent of exports of goods, services, and private transfers), and is now slated to decline. This should permit the elimination of further external debt rescheduling after FY 1990 if GDP and government revenues resume their growth as expected. Slower than expected growth in GDP and in government revenues in FY 1989, and higher than expected expenditures, have extended Senegal's need for debt relief beyond the originally scheduled cutoff this year.

Improved supply and demand conditions and restrictive monetary policy have combined to produce important reductions in the rate of consumer price inflation. The rise in the consumer price index, which had peaked at 20.1 percent in FY 1982, was reduced to 8.9 percent in FY 1985 and to 5.5 percent in FY 1986. (See Table 5). Small negative rates of consumer price inflation in FY 1987 and FY 1988 have been achieved owing to particularly favorable supply and price developments in the agricultural sector, to increased competition in the industrial sector, and to successive reductions in quantitative trade controls and tariff barriers.

Table 3

SENEGAL: Savings, Investment, and Savings Gap
as a Share of GDP, FY 1983-90
(Percent)

FY	Gross Domestic Savings	Gross Domestic Investment	Savings Gap
1983	1.3 a_/	15.3	14.0
1984	5.2	15.4	10.2
1985	2.5	14.7	12.2
1986	4.2	14.2	10.0
1987	9.3	15.0	5.7
1988	10.2	14.9	4.7
1989	10.0 (est.)	14.5 (est.)	4.5 (est.)
1990	...	...	3.0 (prog.)

Note: a_/ Calculated as a residual.

Source: Same as Table 1 .

FIGURE 3

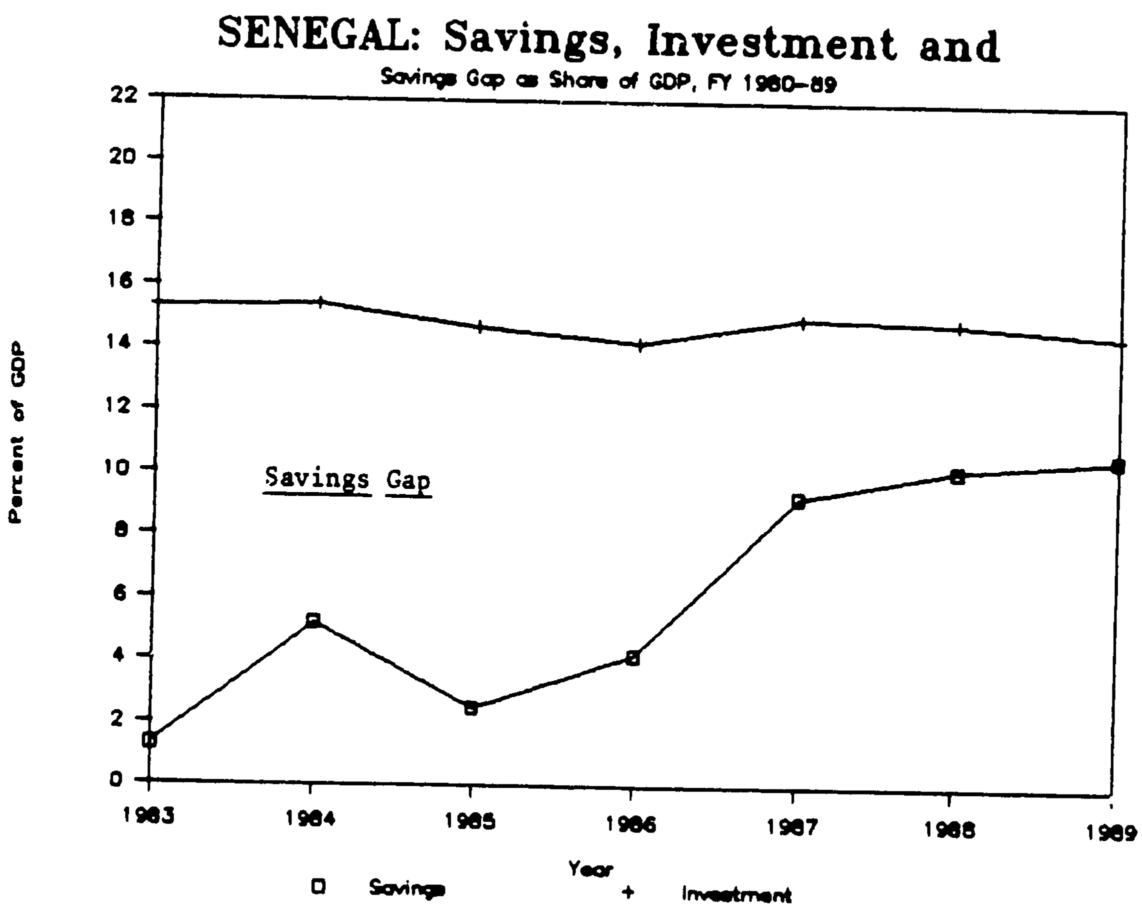


Table 4

SENEGAL: Current Account Deficit and External Grants
as a Share of GDP, FY 1983-90
(Percent)

FY	Balance of Payments Current Account Deficit (Excluding Grants)	External Grants	Balance of Payments Current Account Deficit (Including Grants) = Savings Gap
1983	21.7	7.7	14.0
1984	17.3	7.1	10.2
1985	18.7	6.5	12.2
1986	15.6	5.6	10.0
1987	11.0	5.3	5.7
1988	9.9	5.2	4.7
1989	9.2 (est.)	4.7 (est.)	4.5 (est.)
1990	...	...	3.0 (prog.)

Source: Same as Table 1.

FIGURE 4

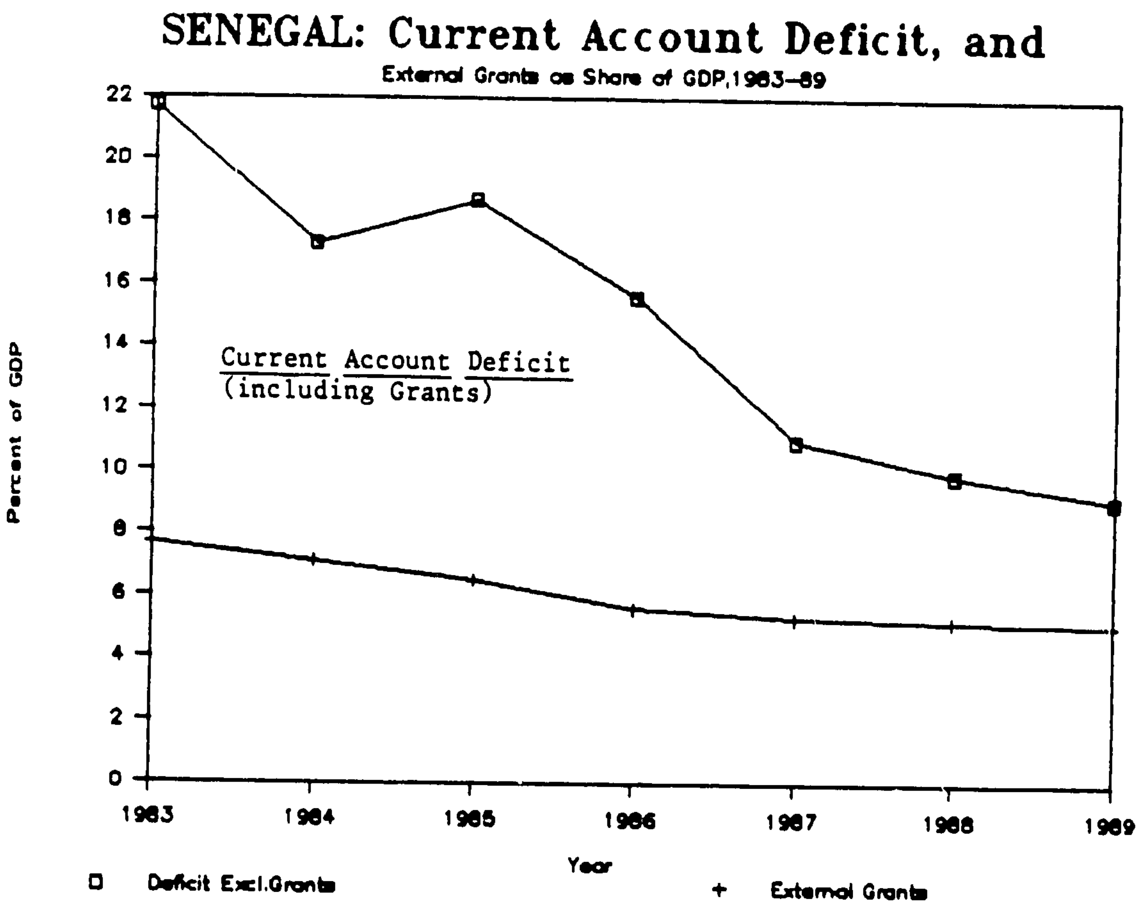


Table 5

SENEGAL: Trends in Selected Lending Rates, FY 1980-1988
(Annual Percentage Rate)

Fiscal Year	Cons. Price Change a_/	Ordinary Credits b_/		Credits to Small & Medium Scale Enterprises b_/		Agricutural Credits b_/	
		Nominal Interest Rate	Real Interest Rate c_/	Nominal Interest Rate	Real Interest Rate c_/	Nominal Interest Rate	Real Interest Rate c_/
1980	4.97	13.00	7.65	8.50	3.36	7.50	2.41
1981	4.10	15.50	10.95	11.00	6.63	10.00	5.67
1982	20.12	15.50	-3.85	11.00	-7.59	10.00	-8.42
1983	11.62	17.50	5.27	13.00	1.24	12.00	0.34
1984	12.22	15.50	2.92	11.00	-1.09	10.00	-1.98
1985	8.91	15.50	6.05	11.00	1.92	10.00	1.00
1986	5.51	15.50	9.47	11.00	5.20	10.00	4.26
1987	-2.30	14.50	17.20	10.00	12.59	9.00	11.57
1988	-2.25	13.50	16.11	9.00	11.51	8.00	10.49

Notes: a_/ Percentage increase in African consumer price index obtained by dividing the index number for June 30th of the current year by the corresponding index number for the previous year.

b_/ Maximum legal rates applicable on July first of the current year. Maximum interest rates for small and medium scale enterprises applicable on loans of CFAF 30,000,000 or less.

c_/ Computed as 100[(1+i)/(1+p) - 1] where i is the nominal interest rate and p is the percentage change in the African price index.

Source: BCEAO, NOTE D'INFORMATION : Conditions Generales Applicables par les Banques dans les Etats de l'Union Monetaire Ouest Africaine, No 274 - Juillet 1979 ; No 304 - Avril 1982 ; No 316 - Mai 1983 ; No 354 - Novembre 1986 ; Arrete 12308 du 4 Octobre 1980 .

Table 6 a_/

SENEGAL: Trends in Selected Deposit Rates, FY 1980-1988
(Annual Percentage Rate)

A: Deposits Of More Than CFAF 2,000,000

Fiscal Year	Cons. Price Change b_/	Time Deposit (1 Year and +) c_/		Savings Account c_/		Checking Account c_/	
		Nominal Interest Rate	Real Interest Rate d_/	Nominal Interest Rate	Real Interest Rate d_/	Nominal Interest Rate	Real Interest Rate d_/
1980	4.97	6.25	1.22	5.50	0.50	3.00	-1.88
1981	4.10	8.50	4.23	7.50	3.27	4.00	-0.10
1982	20.12	8.50	-9.67	7.50	-10.51	4.00	-13.42
1983	11.62	10.50	-1.00	9.50	-1.90	5.00	-5.93
1984	12.22	9.50	-2.42	8.50	-3.31	4.00	-7.32
1985	8.91	9.50	0.54	8.50	-0.38	4.00	-4.51
1986	5.51	9.50	3.78	8.50	2.83	4.00	-1.43
1987	-2.30	9.00	11.57	7.50	10.03	0.00	2.35
1988	-2.25	8.00	10.49	6.50	8.95	0.00	2.30

B: Deposits Of Less Than or Equal to CFAF 200,000

Fiscal Year	Cons. Price Change b_/	Time Deposit (1 Year and +) c_/		Savings Account e_/		Checking Account e_/	
		Nominal Interest Rate	Real Interest Rate c_/	Nominal Interest Rate	Real Interest Rate c_/	Nominal Interest Rate	Real Interest Rate c_/
1980	4.97	5.25	0.27	5.50	0.50	0	-4.73
1981	4.10	7.25	3.03	7.50	3.27	0	-3.94
1982	20.12	7.25	-10.71	6.50	-11.34	0	-16.75
1983	11.62	9.25	-2.12	9.50	-1.90	0	-10.41
1984	12.22	8.25	-3.54	8.50	-3.31	0	-10.89
1985	8.91	8.25	-0.61	8.50	-0.38	0	-8.18
1986	5.51	8.25	2.60	8.50	2.83	0	-5.22
1987	-2.30	7.25	9.77	7.50	10.03	0	2.35
1988	-2.25	6.25	8.70	6.50	8.95	0	2.30

Notes: a_/ Table showes rates only for the largest and smallest deposits. Other intermediate rates exist.

b_/ Percentage increase in African consumer price index obtained by dividing the index number for June 30th of the current fiscal year by the corresponding index number for the previous year.

c_/ Minimum legal rates on private sector deposits. Rates applicable on July first of the current fiscal year. Higher rates negociable . No minimum legal rates on public sector deposits.

d_/ Computed as 100[(1+i)/(1+p) - 1] where i is the nominal interest rate and p is the percentage change in the African consumer price index.

e_/ Fixed rates. Various other deposits which are both CFAF 2,000,000 or less, and one year duration or less, are also subject to fixed rates. Rates vary.

Source: Same as Table 5.

FIGURE 5

SENEGAL: Real Lending Rates, FY 1980–88

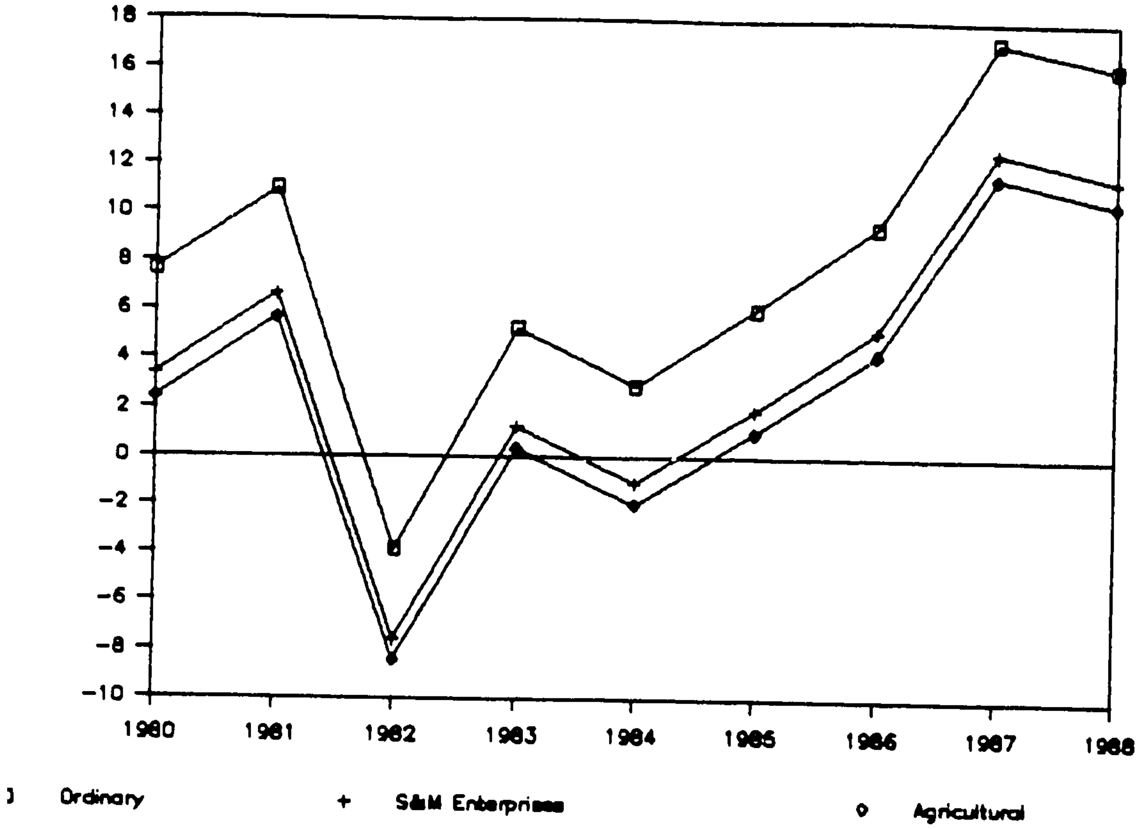


FIGURE 6

SENEGAL: Real Deposit Rates, FY 1980–88

Deposits of more than CFAF 2,000,000

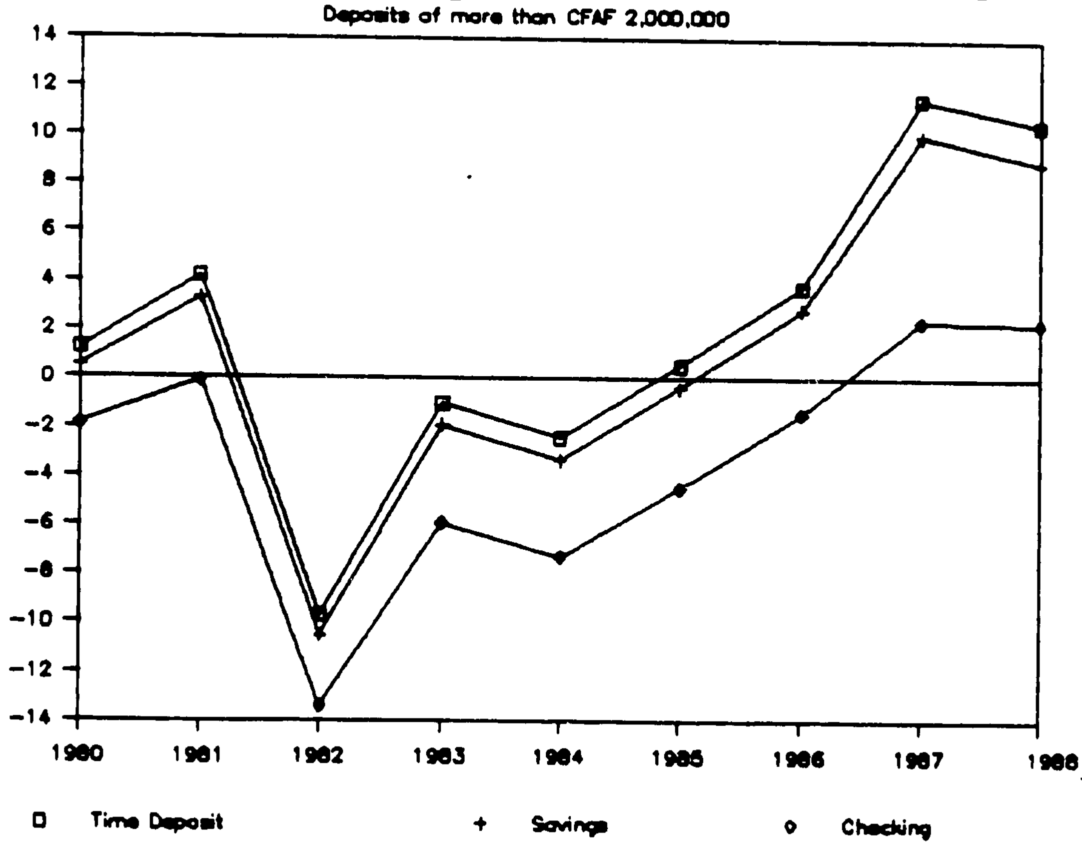


Table 7

SENEGAL: Margins on Selected Loans , FY 1980-89

Fiscal Year	Preferential Rediscount Rate	Normal Rediscount Rate	Ordinary Credits a_/ Nominal Interest Rate	Ordinary Credits a_/ Margin	Credits to Small & Medium Scale Enterprise a_/ Nominal Interest Rate	Credits to Small & Medium Scale Enterprise a_/ Margin	Agricultural Credits a_/ Nominal Interest Rate	Agricultural Credits a_/ Margin
	(1)	(2)	(3)	(4) = (3-2)	(5)	(6) = (5-1)	(7)	(8) = (7-1)
1980	8.00	10.50	13.00	2.50	8.50	0.50	7.50	-0.50
1981	8.00	10.50	15.50	5.00	11.00	3.00	10.00	2.00
1982	10.00	12.50	15.50	3.00	11.00	1.00	10.00	0.00
1983	8.00	10.50	17.50	7.00	13.00	5.00	12.00	4.00
1984	8.00	10.50	15.50	5.00	11.00	3.00	10.00	2.00
1985	8.00	10.50	15.50	5.00	11.00	3.00	10.00	2.00
1986	7.00	9.50	15.50	6.00	11.00	4.00	10.00	3.00
1987	6.00	8.50	14.50	6.00	10.00	4.00	9.00	3.00
1988	6.00	8.50	13.50	5.00	9.00	3.00	8.00	2.00
1989	9.00	10.00	15.00	5.00	12.00	3.00	11.00	2.00

Notes: a_/ Maximum legal rate applicable on July first of the current year.
Maximum interest rates for small and medium scale enterprises applicable on loans of 30,000,000 or less.

Source: BCEAO, NOTE D'INFORMATION : Condition Generales Applicables par les Banques dans les Etats de l'Union Monetaire Ouest Africaine, No 274 - Juillet 1979 ; No 304 - Avril 1982 ; No 316 - Mai 1983 ; No 354 - November 1986 ; No 381 - Avril 1989 ; Arrete 12308 du 4 Octobre 1980.

Defenders of the WAMU system of guaranteed convertibility will point out that of the CFAF 222 billion expansion in domestic assets of the banking system during FY 1980-83, some 60 percent was offset by a CFAF 133 billion decrease in net foreign assets. As a result, the increase in the money supply could be held to some CFAF 89 billion. (See Annex Table II for a numerical demonstration of the impact on the money supply of changes in government credit, domestic assets, and foreign assets).

Detractors of the system of automatic convertibility will suggest that the availability of automatic financing of balance of payments deficits acted to encourage deficit spending and credit expansion during the early 1980s. As the net negative foreign asset position is unwound in the late 1980s and beyond, there will be a tendency for the money supply and inflation to increase, even in the face of a relatively restrictive domestic credit policy.

As indicated in Table 8, the rise in domestic credit during the four year period FY 1980-83 totaled some CFAF 209 billion. This reflected large scale increases in credit both to Government (CFAF 73 billion) and to private and parastatal enterprises and households (CFAF 136 billion). The growth rate of credit to Government increased from 5.8 percent per year in FY 1980, to 65.2 percent per year in FY 1981, and to 134.8 percent per year in FY 1982. (See Table 9). The lower rates that followed in FY 1983 (28.8 percent) and in FY 1984 (33.7 percent) were still high by historic standards.

Despite the much lower rates of growth for non-government credit, the annual growth rate of overall domestic credit rose to 22.9 percent in FY 1982 before declining to 17.4 percent in FY 1983, and finally to 4.7 percent in FY 1984. As indicated in Figure 7, both the ratio of domestic credit to GDP, and the ratio of money to GDP, reached a peak in FY 1983. (For a parallel analysis in terms of the velocity of money, see Annex Table III).

With regard to the composition of the money supply, a long-term upward trend in the share of time deposits (savings deposits) in total money supply began as early as 1981. This trend was accelerated by a sustained rise in real interest rates after FY 1982. (Compare Figure 8 and Figure 6).

As also shown in Figure 8, the long-term downward trend in the share of demand deposits (checking deposits), which began as early as FY 1980, was accelerated by sharply negative real interest rates in FY 1982. (Negative real interest rates also caused a marked upward shift in the preference for holding currency). The downward trend in the share of demand deposits was later reinforced by the "temporary" suspension of interest payments on demand deposits beginning in FY 1985, a measure that was introduced in order to bolster the sagging profitability of the banking sector. The suspension of interest payments on demand deposits caused a second upward shift in the preference for holding currency after FY 1985. The apparent sensitivity of the composition of overall money supply to variations in real interest rates in Senegal is of some note.

Since mid-1983, substantial progress has been made in reducing the rate of expansion of credit to the economy as a whole, and (to a lesser extent) to Government. (See Table 9). The general impression of more restrictive monetary policy is graphically confirmed in Figure 7 which demonstrates a decline in the ratio of domestic credit to GDP in every year since FY 1983.

Table 8

SENEGAL: Monetary Aggregates, FY 1980-88
(In Billions of CFAF; End of Period)

	1979 June	1979 Dec.	1980 June	1980 Dec.	1981 June	1981 Dec.	1982 June	1982 Dec.	1983 June	1983 Dec.
Net Foreign Assets	-45.6	-57.0	-67.2	-77.0	-111.5	-121.6	-133.3	-159.3	-178.8	-182.5
- Central Bank	-31.1	-32.5	-41.1	-55.2	-84.5	-98.2	-120.7	-139.6	-163.4	-170.3
(Of which: Fr. Ops. Acct.)	(-19.6)	(-16.1)	(-27.3)	(-31.9)	(-60.5)	(-58.4)	(-41.4)	(-51.0)	(-67.8)	(-64.7)
- Commercial Banks	-14.5	-24.5	-26.1	-21.8	-27.0	-23.4	-12.6	-19.7	-15.4	-12.2
Domestic Credit	258.5	256.7	283.7	292.5	324.4	370.3	398.6	446.1	468.0	480.2
- Claims on Government (net)	17.1	11.9	18.1	17.9	29.9	40.7	70.2	87.5	90.4	106.9
- Claims on Private and Parapublic Enterprises and Households	241.4	244.8	265.6	274.6	294.5	329.6	328.4	358.6	377.6	373.3
Of which:										
. Crop Credit	44.1	28.3	39.4	23.4	29.8	33.3	28.3	33.6	42.9	22.0
. Ordinary Credit	197.3	216.5	226.2	251.2	264.7	296.3	300.1	325.0	334.7	351.3
(Of which: ONCAD)	(31.4)	(35.5)	(53.1)	(53.1)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)
(Of which Reclassified Crop Credit)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(11.3)	(6.2)	(4.8)
Money and Quasi-Money	178.0	161.1	180.3	177.9	181.0	216.9	238.1	262.4	266.8	272.7
- Currency in Circulation	46.0	42.9	46.8	51.3	48.4	73.6	61.9	84.5	73.2	78.0
- Demand Deposits	96.4	78.3	90.5	87.0	91.0	89.6	104.7	104.8	106.0	111.0
- Time Deposits	35.6	39.9	43.0	39.6	41.6	53.7	71.5	73.1	87.6	83.7
Other Items (net)	34.9	38.6	36.2	37.6	31.9	31.8	27.2	24.5	22.4	25.0
(Of which: ONCAD)	(-)	(-)	(-)	(-)	(-)	(-)	(26.3)	(26.8)	(29.7)	(26.8)

	1984 June	1984 Dec.	1985 June	1985 Dec.	1986 June	1986 Dec.	1987 June	1987 Dec.	1988 June	1988 Dec.
Net Foreign Assets	-198.4	-210.1	-229.5	-264.4	-243.8	-204.3	-207.4	-204.8	-236.0	-250.7
- Central Bank	-181.5	-181.8	-215.7	-228.2	-219.8	-180.1	-185.0	-172.3	-196.5	-211.4
(Of which: Fr. Ops. Acct.)	(-52.4)	(-51.4)	(-80.2)	(-91.7)	(-96.5)	(-50.1)	(-55.2)	(-41.8)	(-60.3)	(-75.6)
- Commercial Banks	-16.9	-28.3	-13.8	-36.2	-24.0	-24.2	-22.4	-32.5	-39.5	-39.3
Domestic Credit	490.1	501.1	503.5	550.4	541.0	550.2	575.6	554.3	606.7	593.6
- Claims on Government (net)	120.9	122.3	126.6	144.0	142.1	148.6	143.9	143.0	149.9	150.5
- Claims on Private and Parapublic Enterprises and Households	369.2	378.8	376.9	403.5	401.9	399.5	431.4	411.3	456.8	443.1
Of which:										
. Crop Credit	12.4	14.6	16.6	28.3	30.0	27.2	56.9	29.9	75.9	21.0
. Ordinary Credit	356.8	364.2	360.3	375.2	371.9	372.3	374.5	381.4	380.9	422.1
(Of which: ONCAD)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(66.4)	(65.8)	(65.8)
(Of which: Reclassified Crop Credit)	(-)	(-)	(-)	(5.6)	(3.5)	(2.2)	(2.2)	(5.9)	(2.2)	(46.2)
Money and Quasi-Money	276.6	287.1	284.3	300.1	291.6	333.6	342.2	332.8	346.2	334.5
- Currency in Circulation	72.9	72.3	64.8	86.2	75.2	104.3	108.9	100.7	97.7	92.8
- Demand Deposits	110.4	119.4	113.0	107.3	112.7	119.1	121.5	109.7	116.9	122.1
- Time Deposits	93.3	95.4	106.5	106.6	103.7	110.2	111.8	122.4	131.6	119.6
Other Items (net)	15.1	3.9	-10.3	-14.1	5.6	12.3	26.0	16.7	24.5	8.4
(Of which: ONCAD)	(26.5)	(29.3)	(22.0)	(20.7)	(19.3)	(17.0)	(13.6)	(12.9)	(10.8)	(13.1)

Source: BCEAO.

FIGURE 7

SENEGAL: Money (M3) and Credit

as a Share of GDP, FY 1980–88

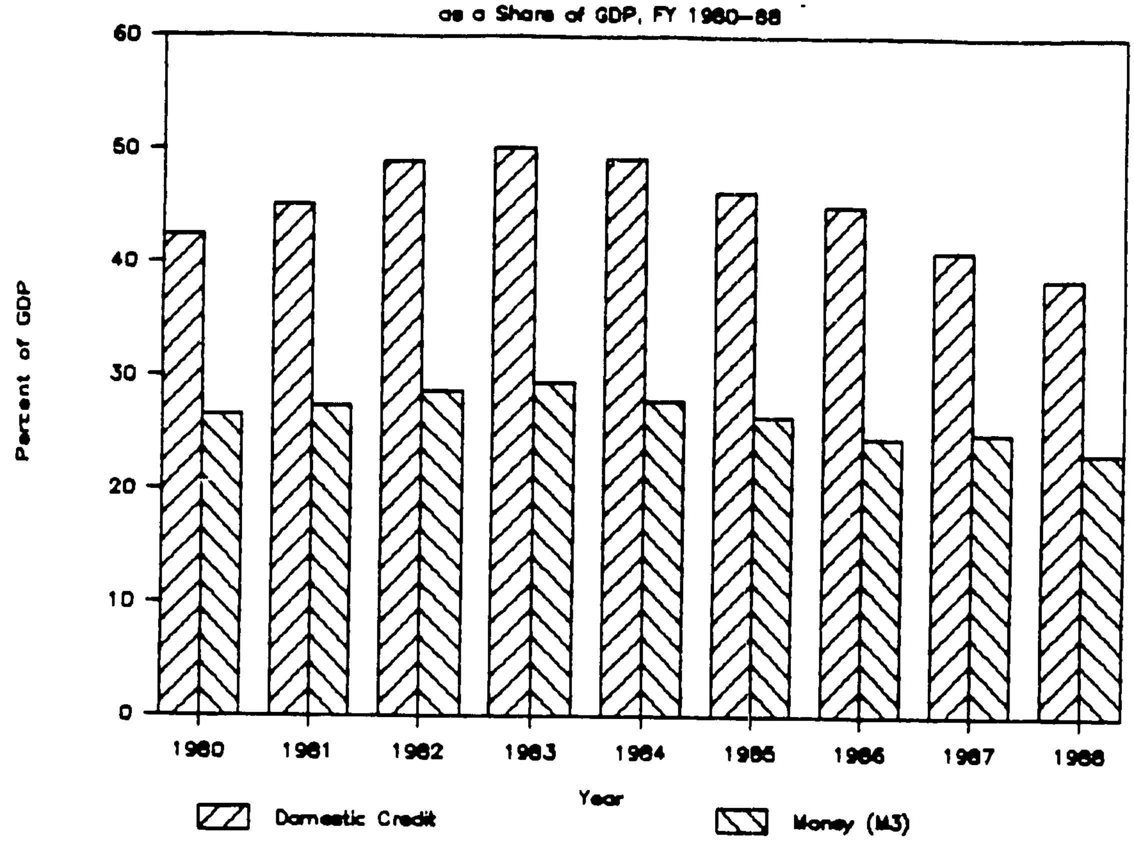


FIGURE 8

SENEGAL: Components of Money Supply

FY 1980–88, Percentage Shares

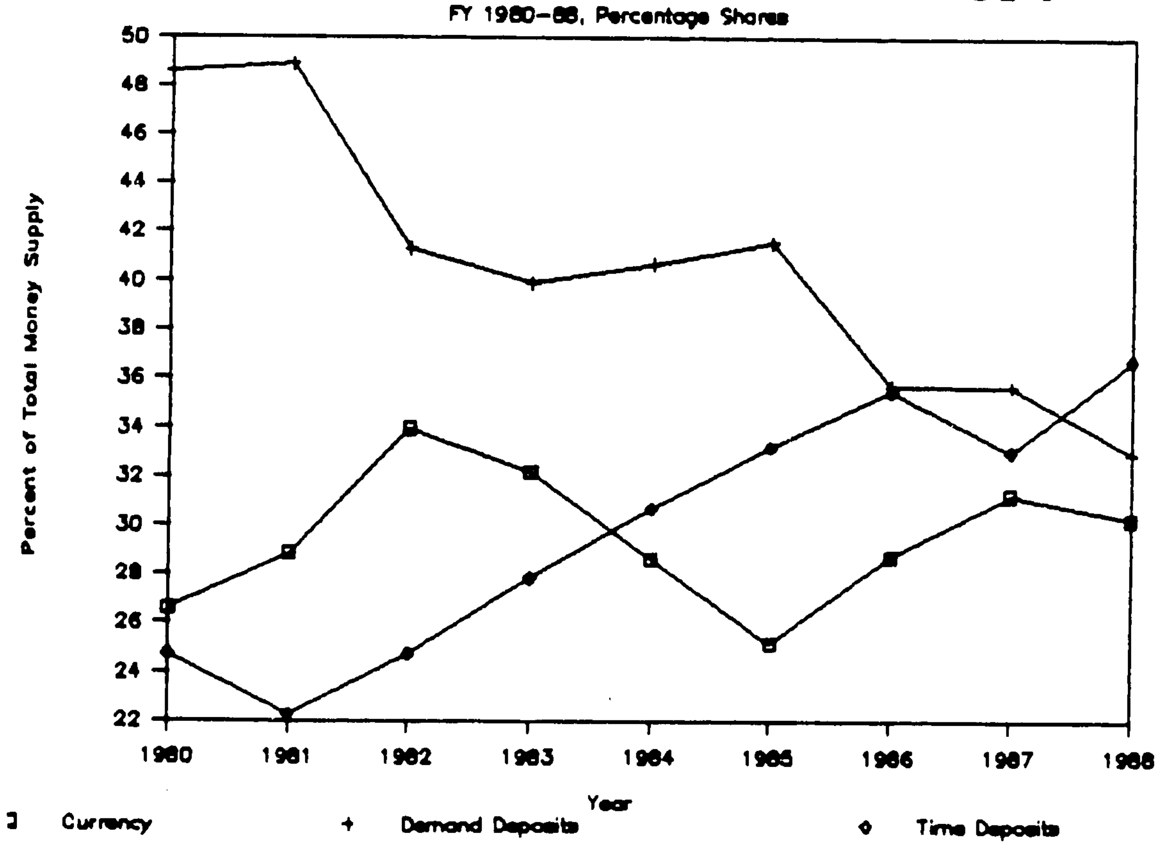


Table 9

Senegal: Evolution of Monetary Aggregates, FY 1980-88 a/
(Annual Percentage Changes)

Monetary aggregates	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net foreign liabilities	47.4	65.9	19.6	34.1	11.0	15.7	6.2	-14.9	13.8
Central bank	32.2	105.6	42.8	35.4	11.1	18.8	1.9	-15.8	6.2
Commercial banks	80.0	3.4	-53.3	22.2	9.7	-18.3	73.9	-6.7	76.3
Domestic credit	9.7	14.3	22.9	17.4	4.7	2.7	7.4	6.4	5.4
Claims on Government	5.8	65.2	134.8	28.8	33.7	4.7	12.2	1.3	4.2
Claims on private and parapublic enterprises and households	10.0	10.9	11.5	15.0	-2.2	2.1	5.8	8.2	5.8
Money and quasi-money b/	1.3	0.4	31.5	12.1	3.7	2.8	2.6	17.4	1.2
Money c/	-3.6	1.5	19.5	7.6	2.3	-3.0	-5.4	22.6	-6.7
Quasi-money d/	20.8	-3.3	71.9	22.5	6.5	14.1	2.7	7.8	17.7

Notes: a/ Fiscal year ending June 30th.
b/ For an analysis of the growth of the overall supply of money in terms of changes in other monetary aggregates, see Annex Table 11.
c/ Currency in circulation and demand deposits.
d/ Time deposits.

Source: Table 8.

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and a parallel, but slower decline in the ratio of money to GDP. The roles of money and credit in the economy are, in fact, much smaller than at the beginning of the decade of the 1980s. In order to support growing levels of GDP, the velocity of money has had to increase steadily since FY 1983, without any very visible improvement in financial intermediation in Senegal in the interim. (See Annex Table II). It is doubtful that such a trend can continue in the future without beginning to act as a brake on the overall rate of growth.

The same problem may also be viewed in an alternative manner. By June 1988, the overall level of domestic credit, corrected for inflation, was some 10 percent lower than the level prevailing in June 1983. In fact, the June 1988 level was only 14 percent higher in real terms than the level attained eight years earlier in June 1980. Two subcases may be distinguished.

On the one hand, real credit to Government in June 1988 was some 115 percent of the level outstanding in June 1983, and some 440 percent of the level outstanding in June 1980. On the other hand, real credit outstanding to the private and parastatal sectors in June 1988 was nearly 16 percent lower than the peak reached in June 1983, and was in fact some 11 percent lower than the level attained eight years earlier in June 1980. While the share of Government in domestic credit rose nearly steadily from 6.4 percent of the total in FY 1980 to 25.8 percent of the total in FY 1988, without any clear policy decision being taken to do so, the sectoral distribution of private and parapublic credit remained nearly constant throughout the period, despite an active sectoral credit policy. (See Table 10).

Within the context of the relatively restrictive credit policy that will be required over the next few years, it is clear that a relatively larger share of total credit must be made available to the private sector if it is to fulfill its role in creating jobs and offsetting some of the negative economic and social consequences of required structural adjustments. A relatively restrictive credit policy makes it all the more imperative that credit be increasingly treated as the scarce resource that it really is. This implies increased rationing by price mechanisms (interest rate policy) rather than by administrative fiat or by informal networking arrangements. It also implies substantial strengthening of the management and institutional capabilities of the banking system, and increased mobilization of domestic savings. As these reform elements are put into place, associated flows of scarce donor resources can play an important role in facilitating an expansion of domestic credit to the private sector, within the context of reduced overall government demands on the banking system. This would permit a gradual reduction in the overhang of net negative foreign assets, while also maintaining a reasonable rate of growth in the money supply, and in inflation, during an important period in which Senegal's international competitiveness must be enhanced.

2. Institutional Setting

a. BCEAO-Level Institutions

Senegal is a member of the West African Monetary Union (WAMU/UMOA) together with Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, and Togo. The Monetary Union was created in 1962 and was substantially reformed in

Table 10

SENEGAL: Sectoral and Term Distribution of Private and Parapublic Credit, FY 1980-88 a_/

Fiscal Year Ending June	1980	1981	1982	1983	1984	1985	1986	1987	1988
					Sectoral Distribution				
					(Percent)				
Loans of more than CFAF 10 million	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and Related Activities	2.4	2.9	2.6	3.3	4.6	3.2	3.1	3.0	3.4
Mining	0.7	0.8	0.8	0.3	0.3	0.2	0.7	0.2	0.4
Industry	16.3	17.3	20.5	20.7	24.4	24.4	22.4	18.2	15.9
Contruction and Public Works	6.8	6.6	6.1	5.6	6.5	6.9	6.7	6.3	6.6
Commerce	52.6	53.9	50.7	51.1	41.9	43.7	45.5	51.5	49.7
- Wholesale	45.8	47.1	44.3	44.8	33.4	34.5	36.5	42.8	40.3
(Of which: Parapublic)	(32.1)	(34.0)	(33.1)	(35.0)	(21.8)	(21.6)	(25.4)	(32.2)	(29.3)
- Retail	4.9	4.8	4.4	4.4	5.6	6.4	6.3	5.8	6.4
- Tourism	1.9	2.0	1.9	2.0	2.8	2.8	2.7	2.9	2.9
Transport and Communications	3.8	3.2	3.3	2.9	3.4	3.7	4.1	3.9	4.6
Other Services	17.3	15.4	16.1	16.1	18.9	17.8	17.5	17.0	19.4
					Term Distribution				
					(Percent)				
Loans of more than CFAF 10 million	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short Term (up to 2 Years)	77.7	77.7	79.4	74.7	61.4	61.3	61.3	62.9	68.7
Medium Term(2-10 Years)	21.4	21.6	20.1	17.6	20.4	22.7	21.5	19.1	17.3
Long Term (above 10 Years)	0.9	0.7	0.5	7.7	18.2	16.1	17.2	18.1	14.0
					(Billion CFAF)				
Loans of more than CFAF 10 million	239.4	284.2	312.9	378.5	346.0	365.2	410.7	457.4	452.9
Total Loans	...	...	...	...	...	...	475.8	509.1	512.1

Note: a_/ Table covers all loans of more than CFAF 10 million. Loans of CFAF 10 million or less accounted for some 14 percent of all loans in FY 1986; 10 percent of all loans in FY 1987, and 12 percent of all loans in FY 1988.

Table 9 above excludes claims against government (which are construed as essentially without risk and hence not followed by the Cenrale des Risques of the Central Bank). On the other hand, Table 11 above includes contingent liabilities of the commercial banking sector which do not normally appear in bank balance sheets.

Source: BCEAO, Centale des Risques.

1973-75. The member countries share a common currency (the CFA franc or CFAF) which is issued by a common Central Bank (the Central Bank of West African States or BCEAO). The BCEAO has its Headquarters in Dakar and a National Agency in each of the member countries.

France provides support for the maintenance of the convertibility of the CFAF into French francs by extending overdraft facilities through the BCEAO's "operations account" with the French Treasury. In return for France's support to the WAMU, the member countries have agreed to certain rules governing the management of their external accounts. Each country pools its available foreign exchange with the BCEAO, and the BCEAO in turn deposits the equivalent of at least 65 percent of its foreign exchange holdings in the operations account. Subaccounts are held for each member country. As will be seen below, Senegal's subaccount in the operations account has been negative throughout the decade of the 1980s with the deficit peaking at some CFAF 97 billion in mid-1986 and declining thereafter.

Monetary policy for the WAMU as a whole is determined by the Board of Directors of the BCEAO. The Board of Directors is composed of two representatives from France, and two representatives from each member state, one of whom is normally the Minister of Finance. The Board of Directors sets the targets for the principal monetary aggregates in each member country with a primary goal of maintaining the parity of the CFAF with the French franc by maintaining an adequate net foreign asset position for the monetary union as a whole.

An increasingly important BCEAO institution is the "money market" (marché monétaire). The "money market" is not currently a true interbank market, but a clearinghouse operation of the BCEAO. Banks needing liquidity borrow short-term from the BCEAO, while banks with excess liquidity make short-term deposits. These deposits are not always strictly voluntary, but reflect the inability of sound banks to lend locally owing to the limited credit ceilings which they are allocated by individual National Credit Committees, or to their inability to freely and expeditiously make transfers abroad.

b. National-Level Institutions

The BCEAO is assisted in policy formulation and policy implementation by individual National Credit Committees in each of the member states. In Senegal, the National Credit Committee is chaired by the Minister of Economy and Finance. Other members include:

- the Minister of Planning;
- the Minister of Industrial Development and Handicrafts;
- the Minister of Rural Development;
- Senegal's other representative on the BCEAO Board of Directors;
- the Director of the French Caisse Centrale de Cooperation Economique; and
- staff members of the Senegalese Ministries indicated above.

Although an independent body, the National Credit Committee relies for its secretariat, and for much of its staff work, on the Agency of the BCEAO in Dakar (BCEAO/Agence).

Senegal's National Credit Committee, like its counterparts in other member states, performs a number of critical functions. The National Credit Committee has the authority and responsibility to:

- propose to the BCEAO Board of Directors a money supply target for Senegal based on economic projections for the coming 12 months;
- translate the BCEAO's decision on the money supply target for Senegal into month-by-month credit ceilings for each of Senegal's banks;
- monitor these bank-by-bank credit ceilings, and the BCEAO's ceiling on credit to the Senegalese Government;
- define priority economic sectors, set sectoral credit targets, and monitor such targets globally and on a bank-by-bank basis; and
- define and enforce the credit threshold (currently CFAF 70 million) above which prior authorization of individual loans is required by the National Credit Committee.

3. Regulatory Policies and Instruments

a. BCEAO-Level Policies and Instruments

The BCEAO currently attempts to enforce a number of quantitative or prudential ratios in Senegal, with varying degrees of success. These include two liquidity ratios and two solvency ratios described individually below. In the 1970s, most banks had generally respected these prudential ratios, but during the 1980s a growing number of banks have been unable to meet all required criteria even in a pro forma sense.

One liquidity ratio defined by the BCEAO (the <u>coefficient de trésorerie</u>) stipulates that at least 75 percent of short-term liabilities (sight or less than six months) must be covered by equivalent short-term assets (cash, and other assets less than 6 months). For the banking system as a whole, enforcement has been poor, with the ratio declining from 77 percent at the end of the banking year in September 1985, to 69 percent in September 1986, and to a low of 67 percent in September 1987. The overall ratio recovered to 88 percent in September 1988, with wide variations continuing among the various banks. The liquidity ratio for the six sound banks (BICIS, BHS, BST, BCCI, CITIBANK, SGBS) at the end of September 1988 was as high as 127 percent, while the ratio for nine problem banks stood at some 73 percent, somewhat below the required level.

A second liquidity ratio defined by the BCEAO, the quick ratio (<u>coefficient de liquidité</u>, also known as the <u>ratio de disponibilité</u>), stipulates that at least 3 percent of a bank's short-term assets should be in highly liquid form (cash, sight, or less than 90 days). For the banking system as a whole this ratio has been well observed. Although the ratio declined from 10.3 percent in September 1985 to a low of 8.7 percent in September 1986, the system has since shown some recovery with the overall ratio rising to 11.6 percent in September 1987, and to 16.6 percent in September 1988, again with wide variations among the various banks. At the end of September 1988, the quick ratio for the six sound banks was as high as 30 percent, while the ratio for nine problem banks stood at some 7.7 percent, well above the required level.

Most of the liquid assets of the sound banks are in the money market. As noted by the joint IBRD/U.S./French Mission studying the Senegalese banking sector in May 1988, since the sound banks are indebted to foreign correspondents in an amount nearly equal to their money market deposits, it would normally seem desirable for the sound banks to draw down their money market deposits and to repay their overdrafts with foreign correspondents. Discussions with the BCEAO, however, suggest the existence of an informal policy of delaying transfers of funds from Senegal to ensure that banks make use of overdraft facilities abroad. While this increases the net foreign liabilities of the banking sector by some CFAF 20 billion, and increases the liquidity available to the problem banks through the money market, it is clear that delays in effecting transfers on this scale compromise the BCEAO's principle of free transferability.

With regard to solvency rather than liquidity, a similar pattern of dualism emerges. The BCEAO's requirement regarding the capital/asset ratio (<u>ratio de fonds propres effectifs</u>) stipulates that shareholders' equity, plus long-term loans from shareholders, plus net reserves (retained earnings less provisions for losses) should be equivalent to 6 percent or more of a bank's risk assets. (Risk assets are in turn defined as credit to the private and parapublic sectors, less government guaranteed loans, plus 20 percent of commercial bank credit guarantees). For the banking system as a whole, the required capital/asset ratio is not being observed, dropping from a positive 3.3 percent at the end of September 1985 to a minus 8.2 percent at the end of September 1986. Adjusted for all losses, the ratio stood at minus 30.5 percent at the end of September 1987, and at minus 89 percent at the end of September 1988. By contrast, the capital/asset ratio of the six sound banks at the end of the equivalent periods has been more than adequate, standing at 21.6 percent (1985), 18.2 percent (1986), 23.0 percent (1987), and 43.2 percent (1988).

A second solvency ratio defined by the BCEAO, the refinancing ratio (<u>ratio de refinancement</u>), measures the extent to which banks rely on rediscounting with the BCEAO, rather than on mobilizing their own or depositors' resources. The refinancing ratio stipulates that BCEAO rediscounts should account for no more than 35 percent of total bank credit to the private and parapublic sector. As indicated in Table 11 (item 2), however, this ceiling has been exceeded in every year since 1980. The ratio, however, has shown a gradual decline from the peak level of 50.5 percent (reached during the financial crisis of FY 1983) to 37.6 percent in FY 1988. The refinancing ratio is not only a measure of the solvency of the banking sector, but is also seen as a useful instrument of monetary policy both in restraining the overall expansion of credit, and in determining the division of credit between the government and non-government sectors.

A parallel monetary policy ceiling on BCEAO advances to the government sector is also shown in Table 11 (item 1). This BCEAO ceiling (<u>découvert statutaire</u>) stipulates that government overdrafts with the BCEAO (plus government borrowings from commercial banks that are rediscounted with the BCEAO) should not exceed 20 percent of the previous year's tax revenues. The 20 percent statutory ceiling has not been exceeded in any year during the 1980s. Nonetheless, Government has several indirect means of increasing its total borrowing from the banking system beyond the 20 percent ceiling. These include government access to the counterpart of most IMF drawings, access to foreign credits and deposits, and government borrowings from

Table 11

Senegal: BCEAO Credit Ceilings, and Actual Performance, FY 1980-88

scal year ending June	1980	1981	1982	1983	1984	1985	1986	1987	1988
Ceiling on BCEAO Advances to Government									
	(Percent of Previous Year's Tax Revenue)								
Ceiling	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual	10.4	19.6	17.5	18.5	17.2	15.3	19.5	20.0	20.0
Ceiling on BCEAO Refinancing of Private and Parapublic Credit									
	(Percent of Private and Parapublic Credit)								
Ceiling	35.0	35.0	35.0	35.0	35.0	35.0	35.5	35.0	35.0
Actual	35.1	43.0	44.8	50.5	43.4	45.2	42.9	43.1	37.6
BCEAO Ceiling on Ordinary Credit a/ b/									
	(b. CFAF)								
Ceiling	230.9	277.7	331.2	382.5	381.5	374.1	376.1	392.0	390.4
Actual a/	226.2	264.7	300.1	334.7	356.8	360.3	371.9	374.5	380.9
Percent Difference	2.1	4.9	10.4	14.3	6.9	3.8	1.1	4.6	2.6

Ordinary credit is defined as credit to private and parapublic enterprises and households, cluding short-term crop credit, but including crop credit which has been reclassified as ng-term due to lack of prompt repayment.

In 1985 ceilings on ordinary credit were expanded to include certain unpaid, doubtful and tigious credits in accordance with standard IMF accounting practices. In the table above, ilings and actuals for years prior to 1985 have been adjusted upward to establish consistency th later practice.

urce: BCEAO

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commercial banks related to offsetting, forced deposits of parapublic organizations and insurance companies. In addition, widespread use has been made of the borrowing capacity of Senegal's numerous parastatal organizations to achieve national purposes which would otherwise require direct government borrowing from the banking sector. The evolution of government and parastatal credit is described separately below in the context of an analysis of the overall sources and uses of funds in the banking system.

The most important policy instrument for determining the overall level of credit in Senegal as a whole is the BCEAO quantitative ceiling on ordinary credit (plafond de crédit ordinaire) shown in Table 11 (item 3). Ordinary credit is defined as credit to private and parapublic enterprises and households, excluding short-term crop credit, but including crop credit which has been reclassified as long-term due to lack of prompt repayment. As Table 11 (item 3) indicates, the BCEAO's country ceiling on ordinary credit has been closely adhered to throughout the decade of the 1980s.

b. National-Level Policies and Instruments

In Senegal, the BCEAO country ceiling is translated into bank-by-bank and month-by-month credit ceilings by the National Credit Committee, taking into account each bank's existing market share, its liquidity position, its portfolio quality, its respect of the Committee's sectoral credit guidelines, and its relative newness to the market (a newer bank being allowed a relatively greater share). These criteria are not applied according to a fixed formula, however, leaving considerable room for discretion, and for questioning of the resulting credit ceiling allocations.

As noted by the joint IBRD/U.S./French Mission in May 1988, fixed credit allocations may have a dampening effect on interbank competition, and they provide little incentive to banks to mobilize additional local deposits. In addition, some evidence is available to suggest that problem banks enjoy considerably larger allocations of credit ceilings than do sound banks, while also enjoying considerably more liberal BCEAO financing through the money market. Under general conditions of credit restraint, the sound banks were held to an increase in credits totaling CFAF 10.1 billion between 1985 and 1987, while problem bank credits increased by CFAF 33.8 billion in the same period. This represents more than a three-fold difference in permissible lending favoring the problem banks, as compared with less than a two-fold difference in outstanding loans at the beginning of the period. The data below strongly suggest that the credit ceiling system, as implemented by the National Credit Committee, tended until recently to discourage the growth of the sound banks and to encourage the growth of the problem banks. The beginnings of a reversal of past practice, however, are suggested by the available data for the period 1987-88.

Annual Growth in Credit of Senegalese Banks, 1985-88
(percent)

	1985-86	1986-87	1987-88
Sound Banks	3.5	3.8	10.4
Problem Banks	7.8	4.9	8.7

Credits and BCEAO Rediscounts Outstanding, September 30, 1988
(b. CFAF)

	Credits	BCEAO Rediscounts
Sound Banks	160.6	21.8
Problem Banks	317.5	172.9

Source: BCEAO. Mission Conjointe, adapted from Working Papers, May 1988.

Based on the above and related considerations, it was the broadly shared view of the joint IBRD/U.S./French Mission of May 1988 that it would be desirable to arrive at a situation where the target for ordinary credit to the economy could be achieved through global control of liquidity, rather than through bank-by-bank credit ceilings. This would allow banks to compete freely for deposits and for good customers within an overall liquidity constraint designed to ensure that global credit ceilings were respected.

The joint Mission noted that global control of liquidity could be achieved without recourse to fixed credit ceilings through introduction of a modern system of reserve requirements, perhaps defined as a ratio of reserves to total credit outstanding. Within existing WAMU statutes, a reserve ratio could be imposed by Senegal's Banking Control Commission (a five member task force whose members are all appointed by the Minister of Economy and Finance). A low level reserve ratio could be phased in, existing side by side for a time with fixed credit ceilings. As the reserve ratio was gradually raised it would eventually become clear that total credit was below the fixed ceiling, and that credit was being effectively controlled by the reserve requirement. Introduction of such a system in Senegal would require BCEAO cooperation on implementation since reserves normally would be held on deposit with the BCEAO. A system of reserves would be of even more benefit if it were eventually applied union-wide.

In addition to improving the allocation of credit in the Senegalese banking system by fostering increased transparency and competitiveness, a system of reserve requirements could also contribute to the equally important goal of domestic resource mobilization by gradually awarding increased market share to those banking institutions willing and able to improve their liquidity position by attracting increased domestic deposits. A system of required reserves would, of course, provide similar incentives for the Senegalese banks to mobilize foreign resources. Such an incentive system is to be preferred to the current unofficial BCEAO policy of increasing net foreign liabilities of the banking system through dubiously legal delays in facilitating outward transfers of funds.

In addition to the various quantitative control mechanisms described above, Senegal's National Credit Committee employs two important qualitative instruments of credit control the autorisation préalable, and the politique sectorielle du credit. Prior authorization (autorisation préalable) by the National Credit Committee for Senegal is required for any lending to a customer which would bring his total borrowing from the banking system above

CFAF 70 million. The primary objective of the procedure is to maintain the quality of the overall portfolio of the banking system by making sure that credit goes to sound enterprises and in amounts consistent with reasonable ability to repay. (Of course this is the major task, as well, of the originating banks themselves). Other important objectives of the policy include reinforcement of the sectoral credit policy, and encouragement of borrowers to make full use of alternative sources of financing.

In Senegal, the CFAF 70 million threshold set by the National Credit Committee was originally chosen to ensure that at least 80 percent of total bank credit would be individually authorized. Results made available to the joint Mission in May 1988 suggest that only about 55 percent of credit reported to the BCEAO's Centrale des Risques during banking year 1987 had actually received prior authorization. Oddly enough the review process seemed especially relaxed in the supposedly non-priority commercial sector where only 58 percent of credits extended had received authorization. The supposedly high priority (but riskier) industrial sector apparently received closer scrutiny, and nearly 96 percent of credits extended were individually authorized.

While the Centrale des Risques data include loans in the CFAF 10-69 million category which are too small to require prior authorization, this explanation of the discrepancies can only be partial. It appears that the prior authorization requirement is in fact frequently flouted, that delays in reviewing dossiers can take up to two months (or longer where additional information is required by the authorities), and that few applications are in any case refused outright. Scaling down of requested amounts, which occurs with more frequency, has been criticized on the grounds that borrowers are sometimes given just enough credit to get themselves into deeper financial difficulty, but not enough to implement effectively the underlying investment opportunities for which the full amount was originally sought.

Given the high proportion of frozen assets in the portfolio of a majority of Senegalese banks, it cannot be said that the qualitative objectives of the prior authorization requirement have been successfully met. Given this lack of success, and the attendant possibilities for delay or abuse, the autorisation préalable should be reduced in scope or abolished. Since there is some question as to the permissibility of its outright abolition, the CFAF 70 million limit should be raised by the National Credit Committee to a sufficiently high level to effectively eliminate the prior authorization requirement. Since the implementation of the prior authorization requirement is within the authority of the National Credit Committee, action could be taken on Senegalese initiative alone, although close coordination with the BCEAO headquarters (which is seeking a harmonization of the implementation of the autorisation préalable in the WAMU area), would be desirable.

Senegal's National Credit Committee currently implements a second qualitative (or selective) credit control mechanism, the sectoral credit policy (politique sectorielle du crédit). The policy applies to all ordinary credit except for: (1) ONCAD credit; (2) certain credits which are extended by non-bank financial intermediaries but which are not rediscounted with the Central Bank; and (3) credit to certain parastatal organizations to finance strategic imports such as rice and crude oil.

Although parallel systems are in place throughout the WAMU area, Senegal's National Credit Committee sets its own individual sector targets for such credit, and administers them independently of the BCEAO. Attainment of these sectoral targets can in theory be facilitated by judicious implementation by the National Credit Committee of the prior authorization requirement. The system of targets may act in part to offset the disincentives to bank lending inherent in the BCEAO's past policy of low interest rates and narrow bank margins for favored sectors including small and medium-scale enterprises, social housing, agriculture, etc. (See Tables 5 and 7). Although there is substantial overlap, the definition of priority sectors adopted by Senegal's National Credit Committee is somewhat broader than that defined by the BCEAO.

Under the sectoral credit policy, the National Credit Committee establishes a list of priority sectors on an annual basis, and sets percentage targets for credits in each sector. The Committee has the authority to fix minimum coefficients for individual banks calculated on the basis of total credit outstanding, or total deposits. Given the differing specializations of individual banks, ceilings appear to be interpreted only globally, although conspicuous failure to adhere to sectoral objective may make a bank liable to deposit of mandatory, non-compensated balances with the BCEAO, or to mandatory underwriting of public bonds.

The evolution of sectoral targets, and the actual results achieved for the past five banking years (1984-1988), are indicated in Table 12. As the table indicates, priority sectors have generally received a declining share of total credit over the past five banking years, despite the fact that targets were higher at the end of the period than at the beginning. Non-priority sectors increased their share of total credit from 36 percent of the total in banking year 1984 to 40 percent of the total by 1988.

As the joint Mission noted in May of 1988, if the Senegalese authorities really wish to ensure a certain sectoral pattern of credit, then a system of taxes and subsidies would be more effective and less likely to lead to subsequent problems of solvency in the banking sector. Moreover, the origins and analytical bases for determining the definition of "priority" sectors are themselves open to serious question. In addition, the selection of ex-ante credit allocation as opposed to other available tools (including direct subsidies, technical assistance, training, etc.) is also open to question. Sectoral targets should therefore be abolished in the short-term.

Crop credit (crédit de campagne) is specifically excluded from the definition of ordinary credit, and hence is not covered by the National Credit Committee's sectoral credit policy. The term "crop credit" as utilized in Senegal does not refer to advances to farmers for the purchase of seeds, fertilizers, and other inputs. As used in Senegal, the term "crop credit" refers to credit provided by banks to marketing boards in order to finance the purchase of crops from farmers on a cash basis, with sale of crops on external or internal markets occurring over time. Provision of crop credit is a primary sectoral objective of the Government of Senegal, and of other WAMU member states. Short-term marketing credit for commodities, such as Senegal's peanuts, cotton, and rice, therefore, are fully rediscountable with the BCEAO. With some increases in margins, financing of these crops could represent a profitable line of business for many Senegalese banks. When short-term crop credits are not repaid in a

Table 12

Senegal: National Credit Committee; Sectoral Credit and Credit Targets, CY 1984-88
(Percent of Total Credit) a/)

	1984		1985		1986		1987		1988	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
1. Priority Financing b/	67.0	63.7	71.0	63.6	71.0	60.6	69.0	63.3	69.0	60.4
- Agriculture, Fishing Industry, Handicrafts and Tourism	41.5	41.6	43.0	41.8	43.0	37.6	43.5	36.1	43.5	34.4
- Share Repurchases by Senegalese	1.5	0.2	1.5	0.3	1.5	0.3	1.0	0.1	1.0	0.3
- Social Housing	11.0	9.5	11.0	8.9	11.0	8.8	10.0	14.0	10.0	12.1
- Other Lending to Acquire Capital Goods	2.5	3.6	2.5	4.0	2.5	3.9	-	-	-	-
- Construction and Public Works	8.5	6.7	7.0	6.3	7.0	7.1	9.5	9.3	9.5	9.9
- Transport and Communication	2.0	2.1	2.0	1.7	2.0	2.0	5.0	3.8	5.0	3.7
- Housing	-	-	4.0	0.7	4.0	0.9	-	-	-	-

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Table 12 (contd.)

Senegal: National Credit Committee; Sectoral Credit and Credit Targets, CY 1984-88
(Percent of Total Credit) a/)

	1984		1985		1986		1987		1988	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
2. Non-Priority Financing	33.0	36.3	29.0	36.4	29.0	39.4	31.0	36.7	31.0	39.6
- Commerce	25.0	25.1	25.0	24.9	25.0	23.4	20.0	24.9	20.0	25.1
- Forwarding and Handling	2.0	2.0	2.0	1.8	2.0	2.2	2.0	2.5	2.0	3.3
- Other Lending	6.0	9.2	2.0	9.7	2.0	13.8	9.0	9.3	9.0	11.2
Total Credit under Sectoral Policy Lending (percent) a/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Credit under Sectoral Policy Lending (m. CFAF) a/		271.6		285.1		295.9		309.4		319.2

Notes:

a/ Objectives are not expressed in absolute terms, but in percent of total credit extended under the sectoral policy. Total credit under sectoral policy lending is less than the total for "ordinary" credit to the economy indicated in Table 10. Data in Table 9 above exclude UNCAD credit, and financing for strategic imports such as rice and crude oil imports. However, Table 9 above does include certain financing provided by non-bank financial intermediaries (not rediscounted with the central bank) which are not included in Table 10.

b/ Prior to January 1987, the National Credit Committee for Senegal set separate identifiable sub-targets, not shown here, for medium and long-term credits, and for short-term credits.

Source: Ministry of Economy and Finance and BCEAO.

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timely fashion, however, such credits are reclassified into ordinary credit and eat into the credit ceilings of participating banks for the following year. Hence the reluctance of many banks to participate, and the periodic resort to pressure tactics by the Senegal se authorities, including recourse to the sanctions available under the sectoral credit policy (despite the fact that such sanctions, strictly speaking, do not appear legally to apply).

As the ONCAD experience of the early 1980s clearly demonstrated, the overhang of crop credit (queue de campagne) can become a nearly permanent fixture of bank balance sheets. In fact some CFAF 41 billion of the total ONCAD debt of CFAF 94 billion is traceable to agricultural credit of one sort or another, and some CFAF 78 billion of that debt (and its accrued interest) was still unpaid as of September 1988, with retirement of the outstanding balance scheduled to occur over the next 15 years from GOS budget resources.

The 1988 crop year was characterized by relatively high support prices, and by crop yields that were the highest of the decade. These factors, and low world prices for peanuts, the major crop, contributed to an overhang of some CFAF 46 billion of crop credit that had to be reclassified as ordinary credit on December 31, 1989. Although prices for peanuts were lowered substantially for crop year 1988/89, some permanent method must be found to protect the banking system from the crop credit overhangs that result from periodic discrepancies between Senegal's internal administered prices for peanuts, cotton, and rice, and world market prices. While continued improvements in crop pricing policies are part of the answer, the GOS budget should bear the burden of responsibility for any residual financing required by such price discrepancies, not the banking system. Banks should be able to participate in the financing of crop credit based on their own assessment of the solvency of the marketing boards, and on the existence of an annual repayment plan that takes into account internal and world market prices, and government funding available ex ante, if any.

4. Structure of the Banking Sector

Besides the National Agency of the BCEAO in Dakar, Senegal's banking system in mid-1989 included 15 deposit-taking banks, and some nine non-bank financial intermediaries. On the basis of financial data for the banking year ending September 30, 1988, the 15 commercial banks can be divided into two groups consisting of six basically sound banks, and nine "problem" banks with varying degrees of illiquidity, insolvency, or related difficulties (See Annex Table I). Of the 15 commercial banks operating in Senegal, only six have any offices outside of the capital city (BIAO, BICIS, BNDS, CNCAS, SGBS, and USB). Thus, formal banking activity is concentrated in the capital city. (See Table 13).

As of mid-1988, shareholders' capital in the 15 deposit-taking banks and in one associated financial institution (SONAGA) totaled some 30.5 billion CFAF, equivalent to some $104 million (See Table 14). The Senegalese Government participated directly in the ownership of nine of the 15 commercial banks, and participated directly or indirectly in the ownership of 11 of them. Government's direct participation accounted for some 24.8 percent of the ownership of commercial banks, and its indirect participation

Table 13

Senegal: Regional Distribution of Commercial Bank Branches
as of June 30, 1989

	Region	ASSUR-BANK	BCCI	BHS	BIAOS	BICIS	BNDS	BSK	BST	CITI	CNCAS	MFIS	SOFI-SEDIT	SONA-BANQUE	SGBS	USB	TOTAL
1.	Dakar	1	1	1	2	8	1	2	1	1	1	1	1	1	6	5	33
2.	Diourbel	-	-	-	-	1	-	-	-	-	-	-	-	-	1	1	2
3.	Fatick	-	-	-	-	-	-	-	-	-	1	-	-	-	1	-	2
4.	Kaolack	-	-	-	-	-	1	-	-	-	1	-	-	-	1	1	4
5.	Kolda	-	-	-	-	-	-	-	-	-	2	-	-	-	1	-	3
6.	Louga	-	-	-	-	1	1	-	-	-	-	-	-	-	-	-	2
7.	Saint Louis	-	-	-	-	3	1	-	-	-	7	-	-	-	-	-	11
8.	Tamba-counda	-	-	-	-	-	1	-	-	-	1	-	-	-	-	1	3
9.	Thiès	-	-	-	-	2	1	-	-	-	2	-	-	-	-	1	6
10.	Ziguinchor	-	-	-	1	-	1	-	-	-	2	-	-	-	1	1	6
Total		1	1	1	3	14	8	2	1	1	17	1	1	1	10	10	72

Source: BCEAO.

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Table 14

SENEGAL: Distribution of Equity Capital of Deposit Banks as of June 30, 1988

Part A: (Percent)

Banks	Capital (CFA Billion)	GOS Direct Participation	GOS Indirect Participation	Local Private Sector	African Financial Institutions	France	Other Foreign Shareholders
ASSURBANK	2.000	----	----	100.00	----	----	----
BCCI	0.300	----	----	----	----	----	100.00
BHS	1.100	9.10	22.60	50.60	9.10	----	8.60
BIAOS	1.000	35.00	----	10.00	----	55.00	----
BICIS	5.000	42.10	----	7.70	----	35.60	14.60
BNDS	2.400	72.91	2.09	----	6.30	18.70	----
BSK	4.000	5.00	----	45.00	----	----	50.00
BST	1.000	----	25.00	25.00	----	----	50.00
CITIBANK	0.250	----	----	----	----	----	100.00
CNCAS	2.300	28.20	20.80	16.00	15.00	20.00	----
MFIS	1.750	----	----	25.00	----	----	75.00
SGBS	4.500	----	----	38.20	----	38.00	23.80
SOFISEDIT	1.300	18.50	15.40	14.70	23.70	7.70	20.00
SONABANQUE	0.600	----	87.42	8.41	----	----	4.17
SONAGA	1.015	90.64	1.62	6.12	1.62	----	----
USB	2.000	62.24	13.30	----	----	18.70	5.70
Total	30.515	24.77	6.67	25.95	3.02	17.77	21.82

Part B: (Million U.S. $) a_/

Banks	Capital	GOS Direct Participation	GOS Indirect Participation	Local Private Sector	African Financial Institutions	France	Other Foreign Shareholders
ASSURBANK	6.81	----	----	6.81	----	----	----
BCCI	1.02	----	----	----	----	----	1.02
BHS	3.75	0.34	0.85	1.90	0.34	----	0.32
BIAOS	3.41	1.19	----	0.34	----	1.87	----
BICIS	17.03	7.17	----	1.31	----	6.06	2.49
BNDS	8.17	5.96	0.17	----	0.52	1.53	----
BSK	13.62	0.68	----	6.13	----	----	6.81
BST	3.41	----	0.85	0.85	----	----	1.70
CITIBANK	0.85	----	----	----	----	----	0.85
CNCAS	7.83	2.21	1.63	1.25	1.18	1.57	----
MFIS	5.96	----	----	1.49	----	----	4.47
SGBS	15.33	----	----	5.86	----	5.82	3.65
SOFISEDIT	4.43	0.82	0.68	0.65	1.05	0.34	0.89
SONABANQUE	2.04	----	1.79	0.17	----	----	0.09
SONAGA	3.46	3.13	0.06	0.21	0.06	----	----
USB	6.81	4.24	0.91	----	----	1.27	0.39
Total	103.94	25.75	6.93	26.98	3.14	18.47	22.68

Note: a_/ Exchange Rate: $ = 293.58 CFAF.

Source: BCEAO, USAID Staff.

accounted for an additional 6.7 percent. Government was the majority partner in the two largest banks (BNDS and USB), and its direct and indirect participation gave it majority control of one specialized banking group (SONAGA/SONABANQUE). In addition, Government retained directly or indirectly a 49 percent share in the ownership of one specialized agricultural bank (CNCAS).

As indicated in Table 14, the Senegalese private sector accounted for some 26 percent of bank ownership, while an additional 17.8 percent was controlled by French interests. The remaining ownership was shared among other foreign shareholders (21.8 percent) and various African development and financial institutions (3.0 percent). Two of the private banks (BCCI and CITIBANK) were established locally only as branches of foreign banks.

Except for the concentration due to government ownership, the concentration of the banking system in Senegal has not been unduly high. As of mid-1988, the top five Senegalese banks (BNDS, USB, SGBS, BICIS and BIAOS) held nearly four-fifths of total assets, but each of the top five banks had at least a 10 percent share of the market. The top five banks collectively held nearly the same share of all non-frozen assets, and of private deposits. The individual market shares of each of the top five banks varied, however, depending upon whether the criterion chosen was a bank's share of total assets, its share of non-frozen assets, or its share of private deposits. (See Table 15). The existing degree of banking concentration would normally be sufficient for reasonable competition in the Senegalese context, but overall competition has in the past been seriously hampered by the concentration of government ownership, the close cooperation between the Government and the BCEAO on a wide range of policy issues, the application of fixed interest rates and fixed credit ceilings, and cartel-like consulting arrangements among the banks themselves.

III. Program Description

A. Rationale and Major Problems of the Banking Sector

The Senegalese banking system is in serious trouble, meeting neither the current needs of its existing customers nor the development needs of the country. Several of the country's largest banks have bad and doubtful debts which greatly exceed capital and reserves. (See Section II.B.3 above on solvency ratios). By September 30, 1988, bad and doubtful debt of the banking system as a whole exceeded $721 million (CFAF 216 billion) equivalent to some 45 percent of loans and to 28 percent of total assets. (See Table 16). This figure includes CFAF 78 billion of debt from the former rural development parastatal (ONCAD), and some CFAF 46 billion of outstanding crop credit which was reclassified as ordinary credit on December 31, 1988.

Most Senegalese banks currently have serious liquidity problems that limit their ability to make new loans, and a mismatch is also frequently apparent between short-term liabilities and short-term assets. (See Section II.B.3 above on liquidity ratios). As a result, a number of banks are having difficulty in honoring deposit withdrawal requests, in processing trade credits, and in clearing checks through the BCEAO. A generalized liquidity crisis is gradually spreading, which is also affecting sound banks, and acting as a brake on overall economic activity. Government's

Table 15

Senegal Market Share of Banking Institutions, 1987 and 1988

1987

Total Assets			Non-frozen Assets		Private Deposits	
Rank	Bank	Share percent	Bank	Share percent	Bank	Share (percent)
1.	BNDS	30.7	BNDS	29.3	SGBS	20.4
2.	USB	14.4	SGBS	15.1	BIAOS	18.2
3.	SGBS	12.5	BICIS	12.6	BICIS	18.0
4.	BICIS	10.4	USB	11.0	USB	15.7
5.	BIAOS	10.3	BIAOS	9.6	BNDS	6.3
6.	BSK	5.5	BSK	5.0	BHS	5.7
7.	BHS	3.7	BHS	4.5	BSK	5.0
8.	BCCI	2.2	BCCI	2.7	BCCI	3.9
9.	SOFISEDIT	2.2	SOFISEDIT	2.6	CITIBANK	1.6
10.	CITIBANK	1.8	CITIBANK	2.1	MFIS	1.2
11.	SONAGA	1.6	CNCAS	1.2	SONABANQUE	1.2
12.	ASSURBANK	1.5	SONAGA	1.1	ASSURBANK	1.1
13.	MFIS	1.1	ASSURBANK	1.0	BST	0.7
14.	CNCAS	1.1	MFIS	1.0	SOFISEDIT	0.6
15.	SONABANQUE	0.7	SONABNQUE	0.6	CNCAS	0.5
16.	BST	0.4	BST	0.5	SONAGA	0.0

1988

Total Assets			Non-frozen Assets		Private Deposits	
Rank	Bank	Share percent	Bank	Share percent	Bank	Share (percent)
1.	BNDS	31.5	SGBS	20.8	SGBS	22.6
2.	USB	15.4	BNDS	19.8	BICIS	18.3
3.	SGBS	12.2	BICIS	14.2	USB	15.4
4.	BICIS	10.4	USB	11.6	BIAOS	14.7
5.	BIAOS	9.5	BIAOS	10.7	BNDS	6.2
6.	BSK	4 5	BHS	5.1	BHS	5.1
7.	BHS	3.5	BSK	3.9	BCCI	4.3
8.	BCCI	2.8	CNCAS	3.6	BSK	3.0
9.	SOFISEDIT	2.4	CITIBANK	2.5	CITIBANK	2.6
10.	CNCAS	2.1	SONAGA	2.5	ASSURBANK	2.3
11.	CITIBANK	2.0	SOFISEDIT	1.8	MFIS	1.5
12.	ASSURBANK	1.9	MFIS	1.2	SONABANQUE	1.4
13.	SONAGA	1.6	BCCI	0.7	CNCAS	1.2
14.	MFIS	1.0	ASSURBANK	0.6	BST	0.8
15.	SONABANQUE	0.7	SONABANQUE	0.6	SOFISEDIT	0.6
16.	BST	0.5	BST	0.4	SONAGA	0.0

Note a For full name of banks, see Annex Table I. Data are for banking year ending September 30th.

Source: Mission Conjointe, Working Papers, May 1988, and BCEAO.

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Table 16

SENEGAL: Consolidated Balance Sheets of Six Sound and Nine Problem Banks, as of September 30, 1988

	Six Sound Banks		Nine Problem Banks		Banking System	
	b. CFAF	Percent	b. CFAF	Percent	b. CFAF	Percent
Assets						
Reserves	49.9	20.4	17	3.3	66.9	8.7
Loans	160.6	65.8	317.5	61.0	478.1	62.5
Of which:						
(ONCAD)	(26.9)	(11.0)	(50.8)	(9.8)	(77.7)	(10.2)
(Frozen Loans)	(5.1)	(2.1)	(133.6)	(25.7)	(138.7)	(18.1)
Other	33.6	13.8	169.8	32.6	203.4	26.6
Losses	---	---	16.5	3.2	16.5	2.2
Total	244.1	100.0	520.8	100.0	764.9	100.0
Liabilities						
BCEAO	21.8	8.9	172.9	33.2	194.7	25.5
Other Banks	25.5	10.4	26.4	5.1	51.9	6.8
Deposits	136.5	55.9	140.5	27.0	277.0	36.2
LT Loans	---	---	6.5	1.2	6.5	0.8
Capital	11.4	4.7	25.6	4.9	37.0	4.8
Other	46.8	19.2	148.9	28.6	195.7	25.6
Profits	2.1	0.9	---	---	2.1	0.3
Total	244.1	100.0	520.8	100.0	764.9	100.0

Source: BCEAO

inability to realize tax revenues paid via checks drawn on illiquid banks is also a growing problem, and one that is beginning to seriously affect the Government's cash flow, including its ability to meet government payrolls. As of June 30, 1989, Government holdings of checks drawn on illiquid banks amounted to some CFAF 22 billion ($73 million), equivalent to more than nine percent of annual tax revenue.

In the absence of a system of deposit insurance, a generalized desire to withdraw deposits, leading to closure of some banks, would place significant moral and political pressures on Government to protect all depositors, but particularly the smaller ones. In addition, Government would have an immediate legal obligation to cover outstanding loans of affected banks when such loans have been discounted with the BCEAO. The total of such discounts on September 30, 1988 amounted to some $609 million (CFAF 195 billion), and the total discounts outstanding of the nine problem banks alone amounted to some $541 million (CFAF 173 billion). (See Table 16).

The Senegalese banking sector is currently characterized by a relative inability to mobilize domestic deposits that is only partially explained by the growing lack of public confidence in the system. Lack of a developed branch network, lack of marketing, poor customer service, the lack of interest payments on demand deposits, and double taxation of interest earnings on bank deposits have been additional explanatory factors. High transactions costs, high wages, overmanning, and low productivity, have contributed to a marked preference for rediscounting of loans with the BCEAO in lieu of mobilizing domestic resources, which can be labor intensive. Such rediscounting has in the past been substantially in excess of legal limits for credits extended to the private and parapublic sectors (See Table 11).

The high cost of central bank rediscounting, and the high interest costs associated with attracting marginal funds to the more risky banks, have contributed to reducing the value-added of the banking system in recent years. In addition, non-performing loans have grown as a proportion of total assets acting on the income side to reduce value-added as well. Overall, the net value-added of the banking systems fell from an estimated CFAF 11 billion in the banking year ending September 30, 1985, to some CFAF 4.0 billion in 1986, and to a minus CFAF four billion in 1987. If all non-performing loans had been provisioned at 100 percent, the losses of the banking system would have grown from CFAF 0.1 billion in the banking year 1985, to CFAF 7.4 billion in 1986, and to CFAF 15.8 billion in 1987.

In its current condition, the Senegalese banking system taken as a whole is less and less able to perform the traditional banking functions of mobilizing domestic savings, of providing a safe repository for precautionary and transactions balances, of facilitating everyday commercial activities, and of efficiently allocating financial resources to either traditional or non-traditional customers. As is clear from the data in Table 16, and from the discussions of liquidity and solvency in Section II.B.3, the condition of the various Senegalese banks is far from uniform. The six sound banks provide evidence that a variety of institutional arrangements and marketing strategies can under proper management yield profitable results (even within the constraints imposed by existing WAMU regulations, as applied and interpreted by the Senegalese National Agency of the BCEAO and the Senegalese National Credit Committee). The rate of return on the capital of the six sound banks as a group appears to have averaged from 12-17 percent in recent years, with individual rates over 30 percent for some banks with selected clientele. With proper reforms, increased profitability should be possible for all banks even within the context of a broadened client base.

B. Banking Sector Constraints

As suggested in Section II.A.2, sharp variations in the overall level of economic activity in the early 1980s, and a parallel breakdown in fiscal discipline, contributed substantially to the weakening of the Senegalese banking sector. As indicated in Section II.B.1, a rapid expansion in credit took place, particularly in the public and parapublic sectors, that could not be sustained and that was not sufficiently related to the repayment possibilities of the borrowers whether private, parastatal, or public. In reaction to the excessive credit expansion of the early 1980s, and to the deterioration in the net foreign asset position, the BCEAO subsequently applied increasingly tight credit restrictions that reduced the liquidity of the banking system, and slowed economic activity, at the very time that banks were finding it increasingly difficult to make recoveries on existing loans. By the end of the 1980s, structural adjustment measures were having their own impacts as the flow of public funds to troubled parastatals was restricted, and as private and parastatal firms reacted, or failed to react, to the gradual reduction of quantitative trade restrictions, tariff barriers and other protections.

Beyond such general considerations, the joint Mission of May 1988 identified a number of more specific constraints that appear to have contributed to the present crisis in the banking sector. On the one hand there has been a considerable level of direct government participation in the banking sector, and direct or indirect intervention in bank lending decisions, that have had negative effects on the liquidity, solvency, and profitability of the banks. Administratively determined bank-by-bank credit ceilings have acted to restrict interbank competition, while sectoral credit policies and prior authorization requirements have reduced the independence of the banks in the loan decision-making process. Sectoral lending to agriculture via the ONCAD vehicle, and via the crédit de campagne mechanism, also seriously impact on bank balance sheets. Despite the substantial involvement of the authorities in the ownership, management, and loan decision-making processes of banks, the banks themselves do not seem to have been sufficiently protected from an unusual concentration of risks on a relatively small number of borrowers subsequently unwilling or unable to repay. Moreover, past ownership, management, and regulatory arrangements do not seem to have protected the banks from a complex of personal, familial, regional, political and religious pressures which have impacted negatively on the loan decision-making process, and on loan recovery efforts.

While perhaps too much official attention has been directed to the allocation of credit, too little attention has been given to the inspection, control, and supervision of banks, including enforcement of basic prudential ratios. The quantitative ratios themselves have not been sufficiently enforced, and the qualitative assessment of the reporting documents supplied by banks, and of the underlying bank records, has been less than adequate. Indeed strict application of existing quantitative and qualitative criteria might have prevented much of the rapid expansion of credit that occurred during the late 1970s and early 1980s, and avoided the peculiar distribution of such credit.

Beyond such considerations, it is clear that poor overall bank management has played an important role in the current crisis of the banking sector. Of particular concern are deficiencies in loan analysis, loan follow-up, loan recovery, and internal control mechanisms required to prevent fraud. These issues can be addressed through the restructuring and rehabilitation of individual banks, and depend critically on the attitudes, abilities, and training of bank management, and ultimately on the attitudes and interest shown by the shareholders toward improved bank performance. Because of recent (and forthcoming) layoffs of bank employees by the weaker banks, Senegalese public opinion is now highly sensitized to the problem of poor performance by the banks regarding loan recoveries from solvent debtors.

Reform of the banking sector in Senegal, as opposed to mere refinancing, will therefore require appropriate changes in the ownership, management regulation, inspection, and supervision of banks. It will require the mobilization of substantial political will to increase the independence of the banks, the Central Bank, and the national regulatory authorities so that each can play its role in a system that better protects depositors and shareholders while improving the mobilization and allocation of domestic resources.

C. Responses to the Current Problems of the Banking Sector

1. Background

Realizing the seriousness of the underlying problems of the banking sector, the Government of Senegal in 1987 commissioned an independent World Bank-financed study by a Paris-based consulting group (Centre International de Formation de la Profession Bancaire - CIFPB). On the basis of the study, and additional work by the Ministry of Economy and Finance, the Government of Senegal convened a meeting of external donors in August 1987, and presented an overall financial rehabilitation plan (Objectifs et Modalités du Plan d'Assainissement du Secteur Bancaire). The World Bank, the French and the U.S. provided extensive written and oral reactions to the Senegalese Plan, requesting additional detailed economic and financial data, and strongly suggesting that the long-term stability of the banking sector would require institutional and policy reforms at the level of individual banks, at the level of the BCEAO, and in the monetary, credit and regulatory policies of the state. The external donors were agreed as well that the financial burden of restructuring the banking sector would have to be shared by all parties concerned including the BCEAO, the GOS Treasury, and individual shareholders.

In preparation for a joint IBRD/U.S./French Mission in May 1988, the Government of Senegal prepared an expanded sectoral restructuring plan (Note Complémentaire No. 2 du Plan d'Assainissement du Secteur Bancaire, dated April 1988) which provided the requested projections for key macroeconomic, monetary, and credit variables. The Note also provided balance sheet information and income statements for recent years on a bank-by-bank basis, together with financial projections based upon implementation of the proposed restructuring effort.

The conclusions of the joint Mission were transmitted to the Ministry of Finance in the form of an Aide Mémoire de la Mission Conjointe in late May 1988. In addition to its review of the financial modalities of an overall plan to restructure the banking sector, the joint Aide Mémoire underlined the necessity of addressing the underlying causes of the existing problems in the banking sector. These were construed as falling into three main categories: (a) the poor internal functioning of some banks; (b) an excessive intervention of the state in the banking sector; and (c) insufficient inspection, supervision, and control of banks.

The joint Aide Mémoire has since served as the basis for further discussion and negotiations by the World Bank, the IMF, the French and the U.S. The status of the reform process was summed up in pp. 23-25 of the Medium-Term Economic and Financial Policy Framework Paper (PFP) for 1988/89 - 1990/91, prepared by the Senegalese authorities in close collaboration with the staffs of the International Monetary Fund and the World Bank, and formally agreed to in September 1988. The PFP currently forms the basis for Senegal's access to the IMF's Enhanced Structural Adjustment Faculty (ESAF). The paragraphs of the PFP relevant for banking sector reform are reproduced below:

[Quote]

Monetary policy and banking reform

A prudent credit policy consistent with the growth, inflation, and balance of payments targets will be pursued. In particular, the growth of domestic liquidity will be kept below that of nominal GDP to curb aggregate demand. However, actions will be taken to ensure the appropriate financing for the cash crop sector. As a member of the West African Monetary Union (WAMU), Senegal's interest rate policy is determined by the BCEAO. Within this context, a flexible interest rate policy is being pursued, taking into account economic conditions in the WAMU, developments in international markets, and the need to foster the growth of savings.

The ongoing comprehensive reform of the banking system will be reinforced, and its implementation accelerated in the next two years, in collaboration with the donor community, and in consultation with the Fund and World Bank. This reform goes beyond the decisions taken in September 1986 by the Executive Board of the BCEAO and the Council of Ministers of the WAMU to rehabilitate banks in the Union facing difficulties. The decisions include: (a) the abolition since September 30, 1986 of the penalty rate, and its replacement by the normal discount rate of 8.5 percent on the excess debit balance of banks at the BCEAO; and (b) the establishment of an ad hoc committee in each member country in charge of the adoption and monitoring of the rehabilitation programs of banks. The measures contained in these programs involve loan recovery, strengthening of the banks' own resources, improvements in management, and rescheduling, with government guarantee, of the excess debit balances of the banks concerned in the books of the BCEAO. In conformity with the decisions of the BCEAO, the rescheduling will be made over a maximum period of ten years, with three years' grace, at the preferential discount rate of 6 percent.

The reform program in Senegal involves a two-pronged approach, entailing specific bank-by-bank reforms and general sectoral measures. The specific bank-by-bank reforms could, on the basis of the results of ongoing work and consultations currently being held, include the restructuring, the rehabilitation, the merger or the liquidation of some banks. In all the banks where the Government is the largest shareholder, the Government intends to reduce its participation to a minority position (25 percent maximum). The BCEAO has already consolidated the debit balances of two banks (BCS and USB), and other consolidations will follow as the reform program proceeds. Furthermore, the restoration of the banks' liquidity positions will also require the repayment of the Government's outstanding liabilities to the banking system. This is expected to be financed mainly through long-term concessional external financial assistance.

On a sectoral basis, the Government will refrain from guaranteeing any banking transactions, other than those directly related to its own activities. It will also promote a sound banking environment by ensuring the autonomy of banking activities. Steps will be taken to reinforce bank supervision, in particular by strengthening the Banking Control Commission and closer monitoring by the BCEAO. In particular, the Government will enforce the effective implementation of the existing regulations and will ensure that the supervisory mission's recommendations to banks be reviewed systematically, and appropriately followed up. The Government will also take the necessary measures in order to facilitate the recovery of loan collateral.

[End Quote]

2. Progress on Bank Restructuring

Since the drafting of Senegal's approved Policy Framework Paper (PFP) in September 1988, substantial progress has been made regarding the restructuring and recapitalization of Senegal's private and public sector banks. The GOS has adopted the principle that all banks in the system will be put on a sound financial footing, as part of the banking sector reform program, or be closed down. Of the nine problem banks existing as of September 30, 1988, three functioning banks (BIAOS, MFIS, USB/CLS) have been restructured and are being recapitalized by new or existing shareholders; five defunct banks (ASSURBANK, BNDS, SONABANQUE, SONAGA, AND SOFISEDIT) are being consolidated into a new financially sound bank to open in October 1989; one functioning agricultural bank (CNCAS) has improved its financial situation and will receive special attention under the World Bank Program of Agricultural Sector Adjustment (PASA); and one unsound bank (BSK) will receive substantial recapitalization by existing shareholders, or will be closed down by October 1989.

One of the three restructured banks, the Banque de l'Afrique de l'Ouest-Senegal (BIAOS), adopted a radical reform plan beginning on July 1, 1988, with a reconstituted capital base of CFAF 1.1 billion, new private Senegalese shareholders, a reduction in government ownership (from 35 to 25 percent), and a new director. BIAOS has accelerated its recovery of bad debt, narrowed its target markets, and reduced its costs through implementation of a series of tough measures. These include closing of unprofitable branches (8 of 13), dismissal of excess staff (175 of 350), and the pruning of smaller accounts (some 15,000). BIAOS now expects to break even or to achieve small profits for the banking year ending September 30, 1989.

A second restructured bank, Crédit Lyonnais Sénégal (CLS), began operations on July 3, 1989 with a new director, with reconstituted capital of CFAF 2.0 billion, with expanded participation of Crédit Lyonnais (France), and with a reduction in government ownership (from 62 percent to 5 percent). CLS has taken on management of all of the performing loans of the former USB, and currently has a portfolio less than one-fifth the size of its predecessor. Loan recoveries are now being accelerated; 2 of 9 branches are being closed; 5 branches will be spun off; and staff have been reduced by one-half (from 330 to 115). CLS hopes to be profitable by the end of the banking year ending September 30, 1990. USB's non-performing loans (four-fifths of the total); a small part of staff (60 of 330); and some branches (5 Of 9) are to be reconstituted in a recovery structure to pursue recovery of bad debt.

The third restructured bank, Massraf Fayçal al Islami- Senegal (MFIS), has reached an agreement with shareholders for a pro rata increase in capital to CFAF 4.0 billion, effective September 30, 1989, with an associated short-term, interest-free loan from shareholders of CFAF 300 million. MFIS expects to recover the balance of its past due portfolio over 5-10 years, to narrow its target markets, and to reduce total staff (from 42 to 32) while taking on some additional qualified staff. The BCEAO and the Ministry of Finance have approved the recovery plan for MFIS, and the bank expects to be profitable during the banking year ending September 30, 1991.

A new, financially sound bank, consolidating the performing assets of four former public banks (BNDS, SONABANQUE, SONAGA, SOFISEDIT) and of perhaps one private bank (ASSURBANK), is expected to open in October 1989 with a capital of CFAF 1.06 billion and performing assets of CFAF 17.2 billion. The GOS will have a maximum ownership position in the new bank of 25 percent, with 50 percent reserved for local insurance companies, and an additional 25 percent reserved for an external private partner, or, if necessary, for the participation of the BCEAO or the African Development Bank. The past due portfolio of the banks which are to be closed will be handled by the recovery structure.

The New Bank (NB) will also keep 140 of the 515 employees of the four former public banks. The bank's management will be assisted by two technical assistance people (supplied by AID) in the areas of credit operations and internal bank management. According to the projections made by the Office of the Coordinator for Banking Sector Reform, the loan portfolio is expected to grow from CFAF 17 billion to CFAF 34 billion in five years, with an equal emphasis on growth of company, individual, and small and medium scale credits. The bank expects to use the postal system to provide a network for savings account collection and the services of a mixed public/private consulting firm (SONEPI-Société Nationale d'Etudes et de Promotion Industrielle) to analyze and follow the small and medium-scale portfolio. Profits are expected to go from negative CFAF 30 million in year one to a positive CFAF 570 million in year five, with year two being the break even point.

Senegal's sole agricultural development bank, the Caisse Nationale de Crédit Agricole du Sénégal (CNCAS), has improved its financial position during the past year, but will require careful management attention to costs, to credit analysis, and to recoveries, in the years immediately ahead. The declaration of agricultural sector policy being formulated by the GOS in preparation for the World Bank Program of Agricultural Sector Assistance (PASA) will refine the target markets and operating procedures of the CNCAS. A French team specializing in agriculture is studying a possible reorganization, and expects to make its recommendations by the end of 1989. In any case, the GOS direct ownership in the bank will be reduced from 28.2 percent to 25.0 percent by a grant of 3.2 percent of share capital to Senegal's Federation of Non-Government Organizations (FONGS).

Senegal's last remaining problem bank, the Banque Sénégalo-Koweitienne (BSK), has reached an agreement with its Senegalese and Kuwaiti shareholders for a pro rata increase in capital to CFAF 7.0 billion, with an associated pro rata subordinated line of credit from shareholders of CFAF 3 billion (to be repaid on concessional terms). The GOS has paid in its pro rata five percent share of the new capital, and has repaid its outstanding loans from BSK. The Kuwaitis stand ready to put up their pro rata fifty percent share of new capital and associated loans following similar action by their Senegalese private sector partners (Kebe Holding Company). Kebe Holding must find a way to realize part of the CFAF 25 billion it has tied-up in real estate in order to pay in its pro rata forty-five percent share. If this can not be arranged in the near future, BSK faces closure by the Ministry of Economy and Finance by October 1989. (See Annex B for additional details of the recent history and status of the individual banks undergoing restructuring).

3. Progress on BCEAO Reforms

Implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector will require close cooperation of a number of organizations including especially the BCEAO headquarters. Cooperation with the BCEAO over the past two years has been good, with the pace of reform accelerating since December 1989 under the close direction of the new Governor of the BCEAO, Alassane Ouattara. A calendar of recent positive developments includes the following:

a. May 11-13, 1989. A symposium was organized by Governor Ouattara in Yamoussoukro, Côte d'Ivoire, to discuss and build consensus for reform of BCEAO monetary policy instruments and operating procedures.

b. June 9 and 10, 1989. The BCEAO Board of Directors, and the WAMU Council of Ministers, met in Dakar and approved the broad outlines of reforms proposed by the Governor and BCEAO staff in Yamoussoukro. The Council of Ministers agreed to reschedule on soft terms (15 years, 5 years grace, 3 percent interest) all non-performing loans and debit balances covering problem banks in the WAMU area. Total rescheduling amounted to some CFAF 310 billion (dols 1.1 billion), of which CFAF 126 billion (dols 422 million) were approved for Senegal.

c. June 15, 1989. Governor Ouattara distributed for comment to the National Credit Committees of the WAMU member states a note on proposed reforms of BCEAO monetary policy instruments and operating procedures. The three main principles of the note include: (1) a reduction in the role of Central Bank financing in favor of increased mobilization of domestic saving; (2) harmonization of monetary policy with internal economic activity and international markets, reduction of administrative constraints, and compensating reinforcement of bank supervision and inspection; and (3) a flexible mechanism for the regulation of overall money supply in the framework of a gradual liberalization of credit markets.

d. July 31-August 1, 1989. Meetings of the BCEAO Board of Directors, and the WAMU Council of Ministers took place in Lomé to ratify reforms proposed by the Governor and BCEAO staff. The Council of Ministers agreed that the Central Bank should prepare a draft proposal for the creation of a regional Bank Control Commission which would be chaired by the Governor of the Central Bank. The draft proposal was scheduled to be submitted to the assembled ministers at the Franc Zone meeting to be held in Dakar on September 19, 1989 in preparation for the annual IMF/IBRD meetings. A summary of additional reforms agreed at the July 31 - August 1 meetings, and a calendar for their implementation is given below.

(1) Money market: The BCEAO will implement rules making the money market more attractive than the BCEAO discount rate (effective 10/1/89), and unifying the BCEAO's discount rates (10/1/89). The money market will be expanded to include non-bank financial institutions (12/89), and to include various loan tenors not now available (during 1990).

(2) Government Financing: Past due loans guaranteed by the Government will be included in the credit ceiling to Governments allowed under BCEAO rules (20% of the previous year's tax receipts) (1/90). Each bank will have a lending ceiling for government credits (1/90) as a transition to rules consolidating state credits (10/90).

(3) Crop Credit Financing: Crop credits, whether refinanced in the money market or by the Central Bank, will be included in a bank's 35% maximum discount level (10/90), will be subject to normal interest rates (10/89), and will be subject to normal credit standards (10/90). The crop prices to be used in determining the amount to be financed and the volume to be financed will be determined each year by a group composed of the BCEAO, the Government, and the Commercial Banks. Any subsidy to be financed must have committed financing in place to cover the subsidy before it is financed (10/89).

(4) Sectoral Credit Allocation: Sectoral credit allocation will be eliminated (10/90).

(5) Prior Authorizations: The system of prior loan authorization and credit criteria will be reviewed (10/89).

(6) Bank Commissions and Fees: Commissions and fees will be simplified in kind and number (10/89). Commissions on incoming transfers from abroad will be eliminated and a 2% tax on payments leaving the country will be imposed and turned over to the national treasuries (10/89).

(7) Bank Supervision and Inspection: Internal auditing systems will be established (10/89). Bank surveillance procedures will be established with a regional Banking Control Commission as the main supervisory body (during 1990).

Based on the progress indicated above at the level of the BCEAO, and on the additional policy reforms to be implemented by the Ministry of Economy and Finance, and by the National Credit Committee, a multidonor program of financial and technical assistance to Senegal on banking sector reform was negotiated during early summer 1989.

4. Other Donor Assistance

Based upon close coordination with the BCEAO, the Ministry of Economy and Finance, and the IMF, five programs of donor assistance were approved or agreed in principle by late August 1989. In addition to technical assistance being provided by the Canadians, the U.S., and the IBRD, the external donors as a group will be providing some CFAF 34 billion ($115 million) of program assistance, equivalent to some 12 percent of the required overall financing package of CFAF 284 billion ($947 million). Of the total program assistance package being financed by the external donors, the French will supply some 32 percent, the IBRD 26 percent, the U.S. 26 percent, and the ADB 7 percent, with 10 percent still to be located as of late August 1989. The World Bank is now seriously considering the possibility of increasing its overall contribution both to cover this gap and to reduce the strain on the GOS budget of the bank restructuring program. Individual programs of other donor assistance are summarized separately below.

a. <u>France</u>.

At its session of June 16, 1989, the Monitoring Council of the French Caisse Centrale de Coopération Economique (CCCE) authorized its Director General to grant to the Republic of Senegal a structural adjustment coordinated loan under the special program of assistance to the poorest and most indebted countries in sub-Saharan Africa, on the conditions indicated below.

<u>Object</u>: Partial financing of the restructuring of the Senegalese Banking System

Amount: 220 million French francs ($36.7 million)

Duration: 30 years of which 10 years' grace period

Interest rate: 0.681%/year (with a 77.13% grant element)

Special Provisions: The credit funds shall be deposited in a special account opened with the BCEAO in two successive tranches of 140 million French francs for the first tranche and 80 million French francs for the second tranche. (The first tranche of French assistance was disbursed on June 24, 1989).

Conditions Precedent to the Disbursement of the First Tranche:

Issuance by the GOS of a letter of policy development on the banking sector judged satisfactory by the CCCE and which must provide in particular that the GOS undertakes to:

(1) firmly support the efforts of the banks to recover frozen loans. In this regard, it shall take all legislative and regulatory measures to facilitate such efforts. It shall communicate to the CCCE on a quarterly basis a detailed statement of all recoveries on compromised loans. These statements may be checked on the spot by the CCCE or by an expert appointed by the CCCE for this purpose.

(2) take all protective measures in order to avoid further deterioration of the positions of the public banking establishments. To this end, it shall give all necessary instructions to its representatives on the boards of directors concerned (investment freezes, hiring- freezes, active loan recovery, etc.). The Coordinator of the Reform of the Public Banking Sector shall particularly make sure that these measures are implemented. If necessary, he shall be given more powers.

(3) not to grant authorization for the establishment of new banks or financial establishments without prior consultation with the CCCE.

(4) reduce its participation in the capital of banks to a maximum 25% according to a schedule to be determined in agreement with the CCCE and the World Bank.

(5) not to intervene in the management of the banks and leave to the boards of directors the responsibility for designating the bank management.

(6) cease providing its guarantee for internal borrowings of public and private sector enterprises.

(7) support efforts of the WAMU authorities to improve external control of the banks: supervision based on bank reports, on the spot inspections (including compliance with internal control procedures), follow-up on inspection reports.

(8) support the efforts of the WAMU authorities to improve monetary and credit policy, in relation with the French party, the World Bank and the International Monetary Fund.

Conditions Precedent to the Disbursement of the Second Tranche:

(1) Adoption by the GOS of a plan for restructuring the public banking sector judged satisfactory by the CCCE. This plan must in particular provide for a reduction of the number of firms in this sector.

(2) Realization of a significant level of recovery on compromised loans to the banks covered by this agreement, according to a procedure to be developed with the CCCE and the World Bank.

(3) Disbursement of the first tranche of the World Bank sectoral loan.

b. The World Bank (IBRD)

Object: Partial financing of the restructuring of the Senegalese Banking System

Amount: US $30-45 million is being proposed to senior IRBD management

Duration: 40 years of which 10 years' grace period

Interest Rate: 0.75% p.a

Special Provisions: The credit is expected to be disbursed in two tranches, 60% in December 1989 and 40% in September 1990.

Proposed Conditions of Processing and Disbursement:

Negotiations (November 1989)

(1) Agreement to a study on measures which would eventually allow the suppression of bank-by-bank credit ceilings;

(2) Payment by the shareholders of BSK and MASSRAF of 50 percent of the amounts required for restructuring would be made or the banks would be closed;

(3) Arrangements relating to the establishment of the new bank and of the recovery company (statute,

operations manuals, opening balance, income statements) would be submitted to IDA for review;

(4) Agreement on TOR for the establishment of network of grass-roots financial institutions; and,

(5) The total extent of bad debts would have been established by an independent audit firm and a committee of experts to review progress on debt recoveries designated.

Condition Precedent to the Disbursement of the First Tranche (December 1989):

(1) The use of Government guarantees for domestic borrowings would be formally abolished;

(2) Satisfactory progress toward the establishment of the new bank and the recovery company resulting from the merger of the viable assets of the former public banks would have been made; and

(3) The Letter of Sectoral Development Policy would be officially transmitted to IDA.

Conditions Precedent to the Disbursement of the Second Tranche (September 1990):

(1) Consultation on the results of the study and agreement of procedures and appropriate timing for the introduction of measures permitting the suppression of bank-by-bank credit allocations and their replacement by more market-oriented mechanisms;

(2) Satisfactory review of functioning of new systems of crop credits and prior authorizations by the BCEAO and APB; where reviews showed deficiencies, corrective measures would have been taken to improve functioning of prior authorization system or new crop credit system would have been taken;

(3) The financial restructuring of BSK and MASSRAF will have been completed;

(4) Agreement of a program of action to facilitate the establishment of a network of grass-roots banks;

(5) An acceptable bad debt recovery level will be reached; and

(6) The Government would be current in the payment of all its liabilities incurred in the financial restructuring package.

c. The African Development Bank (ADB)

Object: Partial financing of the restructuring of the Senegalese Banking System in conjunction with the Structural Adjustment Loan (SAL)

Amount: FUA 6 million (US$7.3 million)

Terms: To be determined, but funding will be through the African Development Fund on concessionary terms.

Timing: Proposal will be made to the Bank's Board in 1990.

Conditions Precedent: To parallel those of the IBRD; this banking sector loan will be an IBRD/AFDB co-financing .

d. Canadian International Development Agency (CIDA)

Object: Technical Assistance (one person) to the Ministry of Finance from Mouvement Desjardins, a cooperative movement in Quebec.

Amount: No direct GOS budget support.

Special Provisions: Although the Canadians have not been directly involved in banking sector reform, CIDA was requested by the IBRD to offer the Ministry of Economy and Finance technical assistance from the Canadian Mouvement Desjardins. The Desjardins movement began in the early 1900s in villages in Quebec with people banding together to set up local cooperatives. The cooperatives now total Canadian $40 billion. This system may be adaptable to the Senegalese culture and may lead to the expansion of grass roots financial services within the culture. CIDA has agreed in principle to pay for one person to work with the Ministry of Economy and Finance, and has already begun discussions with individuals at Desjardins in Quebec. CIDA would expect the Desjardins expert to be in place this fall/winter.

Conditions Precedent: Will be contingent on the IBRD program.

As indicated below, the proposed AEPRP-II (685-0292/0299) will provide a significant U.S. contribution to the multidonor financing package in support of the overall GOS program to reform and restructure the Senegalese banking system.

D. Relationship of AEPRP-II to the Mission Strategy

The objective of U.S. assistance to Senegal is to increase per capita growth and food security through an orderly process of financial stabilization, structural reform, and carefully selected project activities in the key areas of agriculture, natural resources, health care, and family planning. For purposes of improved measurability and simplified tracking, the USAID strategy essentially seeks to achieve three priority goals: (1) to promote a dynamic market economy; (2) to increase cereals production; and (3) to improve family health.

Mission efforts to promote a dynamic market economy emphasize restoration of financial stability and an expanded role for the private sector. USAID's principal macroeconomic policy targets include: (1) reducing the budget deficit by limiting government expenditures and by mobilizing domestic resources; (2) reducing the balance of payments deficit through trade and industrial policy reform; and (3) increasing credit availability and improving credit allocation through reduction of government arrears and through banking sector reform.

The proposed banking sector reform program is designed to contribute to financial stability by improving the solvency and liquidity of the banking system, and by contributing to improvements in bank management and bank supervision that will lead to increased public confidence in the financial system. Near-term improvements in the liquidity and solvency of the banking system are required to permit the banking system to continue to perform its normal functions of providing a safe repository for precautionary balances, and of facilitating everyday transactions, including payment of taxes, and financing of international trade. With regard to structural adjustment, the proposed banking sector reform program is designed to improve domestic savings mobilization and to improve the allocation of domestic resources to priority investment uses.

Modernization of the banking sector is the next key step in the Government of Senegal's phased program of reform in the public, parastatal, industrial, and agricultural sectors. With the continued decline in the government share in the overall economy, and with the proposed acceleration in the Senegalese program to divest, liquidate, and reform parastatal organizations, there is a clear need to increase the flow of credit to the private sector to permit it to respond both to new business opportunities - and hence new employment opportunities - and to changing price signals. The proposed AEPRP-II program is designed to contribute to an increased flow of resources to the private sector, while also expanding the role of private ownership and management in the banking sector itself. The program is supportive of the Mission's attempt to integrate private sector approaches into nearly all its new program and project activities, and specifically complements the credit components of the Agricultural Production Support Project (685-0269), and the Community and Enterprise Development Project (685-0260).

E. Purpose

The purpose of the proposed three-year, $35 million AEPRP II for Senegal (685-0292/0298) is to help establish a viable banking system in Senegal characterized by adequate levels of solvency, liquidity and profitability, by increased sectoral and term diversification, and by increased mobilization of domestic savings. (See Purpose Level of Program Logical Framework, Annex G).

The proposed grant from the Development Fund for Africa (DFA) covers a two-year life of project, with $25 million planned for obligation in U.S. FY 1990, and $10 million in FY 1991. Of the total amount to be obligated, $32 million will take the form of a sector program grant. $3 million will be earmarked for associated technical assistance, including: (1) consultancies for accelerated recovery of bad debt, for improved bank management, and for bank privatization; (2) studies of monetary and financial policies; and (3) program implementation, monitoring, and evaluation. The local currency counterpart of sector support will be used to accelerate repayment of government liabilities to the banking system. $2 million equivalent of local currency will be earmarked to finance a trust fund in support of the administrative operations of the A.I.D. Mission in Senegal. The $25 million proposed for obligation in FY 1990 will be in the form of a $22 million sector program grant (including $2 million of local currency equivalent to finance the operating expense trust fund), and a $3 million technical assistance grant. The $10 million to be obligated in FY 1991 will be in the form of a $10 million sector program grant. (See Input Level of Program Logical Framework).

USAID/Senegal is in broad general agreement with the five major objectives of the banking system reform program proposed by the Government of Senegal in its Banking Sector Rehabilitation Plan of November 1987, and in its complementary Note of April 1988: (1) financial stabilization; (2) reduction in the financial exposure of the State to the banking system; (3) redefinition of the existing structure of the banking system, including a reduction in the role of the State (4) improved financial intermediation; and (5) policy reforms designed to ensure continued stability of the banking system.

USAID/Senegal puts relatively less emphasis on short-term stabilization, however, and relatively more emphasis on those reforms that will ensure the long run stability of the banking system on a self-financing basis. As suggested in the Senegalese Plan, such reforms include improved inspection and supervision of banks, privatization and restructuring of banks, and improved bank management. In addition, USAID also emphasizes the desirability of improving mobilization of domestic savings, expanding the deposit base, and expanding the participation of individual Senegalese in the ownership of banks. Mobilization of domestic savings will require not only improved perceptions of the soundness of the banking system, but also improved incentives in the form of higher after tax interest rates for savers, better customer service, and better access to banks by all types of potential depositors, both small and large. Higher and more flexible interest rates also have a role to play in improving the allocation of credit in the Senegalese banking system. USAID, the IBRD, and the IMF strongly support the recent initiatives of the BCEAO, and of its new Governor, in these areas.

Beyond such measures, USAID stresses additional improvements in the credit allocation process through improvements in bank management (principally in marketing, loan assessment, and loan follow-up). Improved efforts at loan collection, and improved internal controls, are additional areas of improved bank management which will be important to improving the profitability and stability of the banking sector and to demonstrating a real commitment to reform. Such efforts are being reinforced by increasing public pressure on the GOS, and on the banks, to improve loan recoveries from solvent debtors.

USAID fully endorses the Senegalese decision to reduce the participation of the State in the banking system, and views the privatization process as a key element in the process of improving bank management and credit allocation. Improving the independence of bank management, however, may not result in increased lending to sectors of particular interest to Government and to donors without basic reforms in monetary, credit, and regulatory policies. Lending to small and medium-scale enterprises and to agriculture must be made profitable to commercial banking institutions in the medium to long-term, or must be provided through specialized institutions where depositors, investors, and the BCEAO itself are no longer at risk. In the near-term, methods must found to finance crop credit (credit de campagne) that do not negatively affect the return to profitability of the banking system.

Given the above concerns, the objectives (Program Outputs) of the proposed three-year AEPRP-II for Senegal are the following:

1. Improved Inspection and Supervision of Banks;

2. Privatization, Restructuring, and Improved Management of Banks;

3. Accelerated Recovery of Bad Debts;

4. Mobilization of Domestic Savings; and

5. Improved Allocation of Credit and Improved Outreach to All Sectors of the Economy.

F. Implementation

Implementation of the overall program of banking sector reform in Senegal will require close continuing cooperation of the BCEAO, the Ministry of Economy and Finance, the domestic and foreign shareholders of Senegalese banks, and the major external donors. An overall financing package totaling some CFAF 284 billion ($947 million) will be required to recapitalize Senegalese banks in difficulty, to cover existing bad debts, and to provide for modest increases in bank liquidity. Of this overall financial assistance package, the BCEAO will finance some CFAF 126 billion (i.e. 44 percent), including refinancing of CFAF 64 billion of former parastatal (ONCAD) debt, and some CFAF 62 billion of non-performing assets of banks in difficulty. Other major contributors to the overall financing package for the banking sector include the GOS Treasury (20 percent of the total package), external shareholders and lenders (8 percent), private Senegalese shareholders (3 percent), recovery of bad debt (13 percent), and external donors (12 percent). (See Table 17). The first tranche of U.S. program assistance is anticipated for December 1989, and the final tranche is anticipated for December 1991. The terminal date for all disbursements, including disbursements for technical assistance, will be June 30, 1992. Implementation of individual policy reform measures is discussed separately in the paragraphs below.

1. Improved Inspection and Supervision of Banks

Attracting new capital to the banking system, and expanding the deposit base, cannot be achieved without perceived improvements in the stability and profitability of the banking system based on both institutional changes and policy reforms. At the most elementary level, substantial improvements will be required in the current procedures for bank inspection and bank supervision as alluded to in the Senegaleses Banking Sector Rehabilitation Plan of November 1987. The purpose of a system of improved inspection would be gradually to enforce existing prudential ratios (capital/asset, liquidity, and rediscount) while also establishing the data base and institutional insights required to tighten enforcement measures and improve regulation in the future.

Table 17
Senegal: Banking Sector Reform; Sources and Uses of Financing
(Billion CFAF)

	Public banks	ASSURBANK	BIAOS	BSK	USB	Other banks	B. Pop.	CLS	Recovery Structure	Total
BCEAO	58.8	3.3	4.5	-	26.1	27.5	-	4.3	-	126.5
- Consolidation of bad assets	37.3	3.3	-	-	21.9	-	-	-	-	62.5
- Consolidation of ONCAD debt (previously discounted)	21.5	-	4.5	-	6.2	27.5	-	4.3	-	64.0
GOS Contribution	39.6	-	6.1	0.4	9.7	-	-	-	-	55.8
- ONCAD debt (not previously discounted)	4.6	-	6.1	0.4	1.9	-	-	-	-	13.0
- Crop credit	35.0	-	-	-	7.8	-	-	-	-	42.8
Foreign Shareholders and Lenders	-	-	10.5	9.9	-	-	-	2.0	-	22.4
- Capitalization	-	-	-	3.0	-	-	-	2.0	-	5.0
- Coverage of bad assets	-	-	10.5	6.9	-	-	-	-	-	17.4
Local Private Shareholders	-	-	0.4	8.7	-	-	-	-	-	9.1
- Capitalization	-	-	0.4	2.7	-	-	-	-	-	3.1
- Coverage of bad assets	-	-	-	6.0	-	-	-	-	-	6.0
Recovery of Bad Debt	14.7	1.0	5.6	5.0	9.6	-	-	-	-	35.9
Donor Sectoral Support	3.2	4.3	6.2	0.3	12.0	-	2.0	6.0	0.5	34.5
- Capitalization	-	-	-	0.3	-	-	2.0	6.0	0.5	8.8
- Repayment of private depositors	3.2	3.8	-	-	12.0	-	-	-	-	19.0
- Operating subsidies	-	0.5	0.5	-	-	-	-	-	-	1.0
- Coverage of bad assets			5.7	-	-	-	-	-	-	5.7
Total	116.3	8.6	33.3	24.3	59.4	27.5	2.0	12.3	0.5	284.2

Source: Ministry of Economy and Finance, USAID staff.

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In the Policy Framework Paper (PFP) of September 1988, the Government of Senegal agreed that steps must be taken to reinforce bank supervision through closer monitoring by the BCEAO. In general, the Minister of Finance of each WAMU country is empowered to ask for individual bank inspections on his own initiative. Under the proposed AEPRP II, the Government of Senegal covenants to request the BCEAO authorities to implement on-site inspections of each Senegalese bank on a schedule limiting the interval between inspections of individual banks to eighteen months or less. Beyond improved frequency of inspections, however, additional steps need to be taken to ensure follow-up and enforcement of the recommendations made by inspection teams.

In a USAID-funded Study of the Feasibility of Deposit Insurance in Senegal carried out in August 1988, ex-Deputy Director of the FDIC John Curtis noted that "the Senegalese National Bank Control Committee currently is the organization that can require banks to correct weaknesses disclosed in BCEAO inspections; however, this committee has no staff. Its membership, all high GOS officials, must take time from their primary areas of responsibility to handle bank matters." As Curtis pointed out, while the quality of BCEAO inspection is often sufficiently high, the BCEAO inspection reports are not generally shared with the banks themselves, but are passed on to the Ministry of Economy and Finance which in the past has lacked sufficient staff, equipment, and training to make possible effective supervision, monitoring, and follow-up operations. As a basic prerequisite to any possible introduction of deposit insurance in Senegal, Curtis suggested that "there is an urgent need to establish within Senegal a strong and independent Bank Supervisory Agency with a staff capable of increasing supervisory pressures on banks faced with problems when bank management seems unable or unwilling to effect correction themselves."

Following consensus-building efforts at the Yamoussoukro Conference of the West African Monetary Union in May 1989, and following the Lomé meeting of the WAMU Council of Minister in August 1989, the Council of Ministers agreed that the BCEAO should prepare a draft proposal for the creation of a regional Bank Control Commission which would be chaired by the Governor of the Central Bank. The draft proposal is to be submitted to the assembled ministers at the Franc Zone meeting to be held in Dakar on September 18, 1989 in preparation for the annual IMF/IBRD meetings. Under the proposed AEPRP II agreement, the Government of Senegal covenants to support such a regional Banking Control Commission to be established at the level of BCEAO headquarters, and to be empowered to review bank inspection reports, initiate audits, review audit reports, note infractions by banks, issue directives, impose sanctions, and insure follow-up.

2. Privatization, Restructuring, and Improved Management of Banks

Privatization is a key step toward reducing the financial and management involvement of Government in the banking sector. As changes in the ownership of the banking system occur, changes in bank management will also be required in order to reinforce the break with the past, and to begin to implement required improvements in savings mobilization, marketing, loan assessment, loan follow-up, loan collection, internal audit and control, personnel management, and control of overheads. As indicated in section 3.C.2 above, a good start has already been made in changing the ownership of banks, in restructuring banks, and in replacing top management. Three banks have already been restructured (BIAOS, MFIS, USB/CLS), and top management has been replaced in two of these (BIAOS, USB/CLS). Five additional banks (ASSURBANK, BNDS, SONABANQUE, SONAGA, and SOFISEDIT) are being consolidated into a new financially sound bank to open in October 1989 under a new director. The Government of Senegal has requested financing under AEPRP II to provide the new bank with technical assistance for improved credit operations, and for improved internal bank operations. Under AEPRP II conditionality, and that of other donors, the number of banks in which the Government of Senegal has direct majority ownership will be reduced from four to zero. (Compare Table 14 and Table 18). The number of banks in which the Government of Senegal has more that 25 percent direct ownership will be reduced from six to zero. The direct ownership of the Government in the banking system as a whole is programmed to fall from 24.8 percent on June 30, 1988 to 11.3 percent or less on September 30, 1990, (the end of the next banking year). The indirect ownership of the Government in the banking system as a whole will fall from 6.7 percent to 2.9 percent during the same period. (For timing and benchmarks against which disbursements will be made, see section III. G. below).

3. Accelerated Recovery of Bad Debt

As of September 30, 1988, the Senegalese banking system had non-performing assets totaling some CFAF 216 billion ($720 million), equivalent to some 45 percent of loans and to some 28 percent of total assets. Of this total, it is now estimated that the banking sector can expect to recover a minimum of CFAF 160 billion, i.e. 74 percent. Estimated recoveries include some CFAF 78 billion of ex-ONCAD debt to be rescheduled by the BCEAO on soft terms and to be repaid by the Government over 15 years; some CFAF 46 billion of overdue crop credit to be repaid by the peanut marketing monopoly and by the Government before the end of the 1989/90 budget year; and a minimum of CFAF 36 billion of ordinary credits to be recovered over the next five years. The planned recovery of CFAF 36 billion ($120 million) of ordinary credits is approximately equal to the total financing package to be provided by the external donors. Such recoveries, therefore, play an important role in the overall financing plan for reform of the banking sector in Senegal.

To accelerate the recovery of bad debt, the Government of Senegal, with the assistance of the BCEAO and the external donors, has completed audits of each of the problem banks as of September 30, 1988. The Government is in the process of updating these audits through June 30, 1989. Based on such audits, and on additional work currently being undertaken by independent auditing firms, the Government of Senegal will compile a data base of bank debtors. This data bank will be updated quarterly, and will serve as the basis of progress reports on bad debt recovery to be made to the Ministry of Economy and Finance, and to the donors.

Completion of the data bank is one of the conditions precedent to release of the first tranche of AEPRP II assistance which is anticipated for December 1989. The data bank on bad debt recovery will initially be established in the proposed bad debt "recovery structure" which is to begin operation in October 1989, and whose creation also forms part of the conditionality for release of the first tranche of AEPRP II assistance. The data bank will also be made available to the headquarters staff of the BCEAO which will provide required quarterly updates.

Table 18

SENEGAL: Projected Distribution of Equity Capital of Deposit Banks, September 1990

Part A: (Percent)

Banks	Capital (CFA Billion)	GOS Direct Participation	GOS Indirect Participation	Local Private Sector	African Financial Institutions	France	Other Foreign Shareholders
BCCI	0.300	----	----	----	----	-----	100.00
BHS	1.650	9.10	30.90	22.50	9.10	-----	28.40
BIAOS	1.500	18.30	----	41.70	----	40.00	----
BICIS	5.000	25.00	----	24.80	----	35.60	14.60
BFOP	1.400	20.00	----	20.00	20.00	----	40.00
BSK	4.000	5.00	----	45.00	----	----	50.00
BST	1.000	----	12.40	37.60	----	----	50.00
CITIBANK	0.300	----	----	----	----	----	100.00
CLS	2.000	5.00	----	----	----	95.00	----
CNCAS	2.300	25.00	4.30	19.50	15.00	20.00	16.50
MFIS	1.750	----	----	25.00	----	----	75.00
SGBS	3.800	----	----	38.20	----	38.00	23.80
Total	25.000	11.30	2.93	28.12	3.10	24.73	29.82

Part B: (Million U.S. $) a_/

Banks	Capital	GOS Direct Participation	GOS Indirect Participation	Local Private Sector	African Financial Institutions	France	Other Foreign Shareholders
BCCI	1.00	----	----	----	----	----	1.00
BHS	5.50	0.50	1.70	1.24	0.50	----	1.56
BIAOS	5.00	0.91	----	2.08	----	2.00	----
BICIS	16.67	4.17	----	4.13	----	5.93	2.43
BPOF	4.67	0.93	----	0.93	0.93	----	1.87
BSK	13.33	0.67	----	6.00	----	----	6.67
BST	3.33	----	0.41	1.25	----	----	1.67
CITIBANK	1.00	----	----	----	----	----	1.00
CLS	6.67	0.33	----	----	----	6.33	----
CNCAS	7.67	1.91	0.33	1.50	1.15	1.53	1.27
MFIS	5.83	----	----	1.46	----	----	4.38
SGBS	12.67	----	----	4.84	----	4.81	3.01
Total	83.33	9.42	2.44	23.43	2.58	20.61	24.85

Note: a_/ Exchange Rate: $ = 300 CFAF.

Source: BCEAO, USAID Staff.

The formation of a committee of experts in the Ministry of Economy and Finance to review the quarterly updates and to make appropriate reports and recommendations also forms part of the conditionality for release of the first tranche of AEPRP II assistance. Conditionality for release of the first tranche of AEPRP II, and for release of each subsequent tranche, also requires achievement of semi-annual targets for bad debt recovery through December 1991. By December 1991 the recovery process should be well institutionalized, and more than one-half of the proposed CFAF 32 billion of recoveries planned over the next five years will have been achieved.

At the request of the Government of Senegal, the U.S. will fund the provision of technical assistance to the proposed bad debt recovery structure during its first two years of existence. Such assistance will include one senior Advisor to act as Deputy Director, and a second senior Advisor to advise on internal organization and operations of the new structure.

4. Improved Mobilization of Domestic Savings

Improved bank inspection and supervision, privatization of banks, and improved bank management all have important roles to play in improving the soundness of the banking system, and in increasing its attractiveness to domestic depositors. Beyond such measures, significant improvements in domestic savings mobilization must be based on fundamental improvements in the incentives offered to savers and bankers alike.

In addition to improved access to financial intermediaries, and better customer service, domestic savings mobilization in Senegal will require improved incentives to savers in the form of higher real rates of return after taxes. USAID notes with approval the steps taken by the Government of Senegal in recent years to reduce rates of domestic inflation, and to reduce the level of taxation (TPS) on interest earnings received by depositors from 17 percent to 7 percent. The recent elimination of the TPS on interest earnings effectively eliminates the double taxation of such earnings, and is recognized in the conditionality for release of the first tranche of AEPRP II assistance. A general covenant under AEPRP II commits the Government of Senegal to refrain from any action which would have the effect of reversing this decision during the period of the agreement.

The BCEAO also has a role to play in encouraging the mobilization of domestic savings. Under past BCEAO policies, banks have had little incentive to open branches, to seek out depositors, or to treat depositors with special care since the cost of rediscounting with the BCEAO, particularly at the preferential discount rate, has often been less than the overall cost of mobilizing savings. Looked at from this viewpoint, two of the primary enemies of improved financial intermediation in Senegal have been the low level of the BCEAO rediscount rates, and the excessive use of rediscounting in lieu of mobilization of domestic savings. USAID notes with approval recent and proposed improvements in the enforcement of the legal ceilings on rediscounting with the BCEAO. We strongly support the recent decisions of the BCEAO to eliminate the preferential discount rate, and to increase the normal discount rate to a level above the money market rate. These two important decisions will become effective on October 1, 1989. As the liquidity position and earnings of banks in the WAMU area improve, we look forward to the possible reintroduction of interest payments on sight deposits (checking accounts), a policy change which is also under active consideration by the BCEAO.

5. Improved Credit Allocation

Within an overall program of banking sector reform in Senegal, improvements in credit allocation are perhaps even more significant than improvements in savings mobilization. Reform of credit allocation mechanisms will require important changes in national credit policy, a search for the maximum flexibility available to Senegal within existing BCEAO regulations, and a pioneering role for Senegal in the study and advocacy of changes in BCEAO regulations where required. Specific areas of current practice to be changed include: the utilization by the BCEAO of credit ceilings (plafond de crédit ordinaire) in preference to reserve ratios to control money supply at the national level; the related bank-by-bank, month-by-month allocation of credit by the National Credit Committee; the prior authorization of individual loans by the National Credit Committee (autorisation préalable); the bank-by-bank, sector by sector allocation of credit by the National Credit Committee (politique sectorielle du crédit); the sometimes forced participation of banks in the provision of crop credit (crédit de campagne); and the excessive use of Government guaranties for private and public loans from the banking sector.

Under the proposed AEPRP-II program, USAID/Senegal will finance an in-depth study of mechanisms to increase interbank competition and to reduce the role of the National Credit Committee in credit allocation by replacing the current system of quantitative controls with a more automatic system (such as a system of reserve requirements) under which market share would ultimately be determined by the ability of individual banks to mobilize deposits and capital resources. Preparation of an Action Plan to implement such changes forms part of the conditionality for release of the third tranche of U.S. assistance (anticipated for December 1990), and implementation is to begin before release of the fourth tranche (anticipated for June 1991).

Under the proposed AEPRP-II program, the prior authorization of loans would be effectively phased out through the mechanism of a gradual increase in the threshold above which loans must be approved by the National Credit Committee. The phase-out will begin with the release of the second tranche of U.S. assistance anticipated for June 1990, and will continue through release of the fourth tranche anticipated for June 1991.

The first tranche of conditionality for U.S. assistance anticipated for December 1989 recognizes the recent abandonment of the sectoral credit policy by the National Credit Committee, and a general covenant provides that the Government of Senegal will refrain from any policy or action which would have the effect of changing any of the policies or actions undertaken by the Government in fulfillment of the conditions precedent of the agreement. In addition, the Government of Senegal agrees to provide evidence, prior to release of the first tranche of U.S. assistance anticipated for December 1989, that it has renounced the practice of imposing on banks operating in Senegal participation in financings undertaken at the initiative of the public authorities, including financing of crop credit.

In a major departure from past policy which could have significant positive effects on the overall allocation of credit, the Government of Senegal agrees to provide evidence, prior to release of the first tranche of

U.S. assistance anticipated for December 1989, that it has terminated the provision of guaranties to public or private firms seeking loans from the Senegalese banks, except in instances of express legislative approval. In addition, the Government of Senegal covenants its support for inclusion by the BCEAO of any non-performing credit guarantied by the Government of Senegal in the net position of the Government with the BCEAO, following activation of any such guaranty. The GOS further covenants that it will actively support the efforts of the BCEAO authorities to arrive at a complete accounting of such credits, and that it will actively assist the BCEAO authorities to continue to monitor the evolution of such credits.

6. Technical Assistance

$3 million will be earmarked for required technical assistance, including: (1) $2 million for consultancies for accelerated recovery of bad debt, for improved bank management, and for bank privatization; (2) $150 thousand for studies of monetary and financial policies; and (3) $750 thousandfor program implementation, monitoring, and evaluation.

<u>Technical Assistance Budget</u>

a. Senior Advisors to the Bad Debt Recovery Structure

(1) Deputy Director of the Recovery Structure - highly qualified financial professional with substantial previous experience at a senior level in debt recovery operations, including formulation of recovery objectives and procedures, management of recovery operations, and analysis of recovery results:

1 Senior Advisor x 2 person-years x $250,000/yr = $500,000

(2) Director of Administration and Finance - highly qualified financial professional with substantial previous experience at a senior level in debt recovery operations, including experience in budgeting, accounting systems, personnel management, communications, and general services administration:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

b. Senior Advisors to the "New Bank" which is to consolidate the performing assets of four former public banks

(1) Deputy Director of the New Bank - highly qualified banking professional with substantial previous experience in senior management position at a reputable commercial bank:

1 Senior Advisor x 2 person-years x $250,000/yr = $500,000

(2) Director of Administration of the New Bank - highly qualified banking professional with substantial previous experience in senior administrative position at a reputable commercial bank, including experience in budgeting and accounts management, data processing, personnel management, and general services administration:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

(3) Search for External Private Partner for New Bank:

Short-Term Consultants x 4 person-months x $25,000/mo = $100,000

c. Study Leading to the Abolition of Bank by Bank Credit Ceilings - Review of the existing system of control of the money supply; feasibility of alternative methods including introduction of reserve requirements; definition, composition, management, and compensation of required reserves; and complementary measures, including an improved interbank money market, and improved methods of allocating BCEAO rediscounts:

Short-Term Consultants x 6 person-months x $25,000/mo = $150,000

d. Project Implementation, Monitoring and Evaluation

(1) Senior Financial Advisor to USAID and MOEF to provide continuing advice on project implementation and design modifications; to provide first line supervision of USAID-financed technical assistance; and to design and implement in the MOEF a computerized project monitoring and evaluation system:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

(2) Microcomputer Trainer and Programmer:

Short-Term Consultants x 6 person-months x $20,000/mo = $120,000

(3) Two microcomputers, IBM compatible, hard desk drive, color monitors, associated software and supplies:

2 PCs x $10,000 + $10,000 (software + supplies) = $30,000

(4) External End of Project Evaluation:

Short-Term Consultants x 4 person-months x $25,000/mo = $100,000

e.	Project Audit	$50,000
f.	Contingency at c. 3% =	$100,000
	Total Technical Assistance	$3,000,000

Technical Assistance Budget Calculations

Long Term Advisors:

Deputy Director Level*	Other Senior Advisors*	
$90,000	$70,000	Salary
13,500	10,500	Post Differential
14,400	11,200	COLA
3,605	3,605	FICA
6,000	6,000	R & R
12,700	12,700	Education Allowance
24,000	24,000	Housing
16,000	16,000	Utilities
4,000	4,000	Embassy Health Unit & Pouch
3,000	3,000	Medical Insurance
500	500	Medivac Insurance
17,250	17,250	Furniture & Shipping
4,000	4,000	Vehicle Shipping
4,200	4,200	Airfreight
13,000	13,000	HHE Shipping, inbound
15,000	15,000	HHE Shipping, outbound
6,000	6,000	Airfare
1,000	1,000	Miscellaneous
$248,155	$221,955	Total/Year
$250,000	$225,000	Rounded Total

* Assumes married, two children, three rooms of furniture pro-rated over two years.

Short-Term Consultants:

Financial and Evaluation Consultants

Salary - $450/day x 24 days	$10,800
Overhead (70%)	7,560
Per diem - $139/day x 30 days	4,170
Air fare	2,000
Miscellaneous and travel	330
Total/month	$24,860
Rounded Total	$25,000

Microcomputer Consultants

Salary - $375/day x 24 days	$9,000
Overhead (50%)	4,500
Per Diem	4,170
Air fare	2,000
Miscellaneous and travel	330
Total/month	$20,000

G. Conditionality

1. Conditions Precedent

Prior to disbursement of the indicated tranches under the Senegal AEPRP II, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Government of Senegal shall, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

- A legal opinion that the Program grant constitutes a legal and binding agreement for the grantee.

- Representatives: A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each person certified as to its authenticity.

- Bank and Account Number: A statement designating the bank and account number to which disbursement is to be made.

a. First Tranche ($12 million)- anticipated for December 1989

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of Credit Lyonnais Senegal does not exceed five percent of the total share capital of the bank;

(b) Evidence that the participation of the Government of Senegal in the ownership of CNCAS and BIAOS does not exceed 25 percent of the share capital of each bank;

(c) Evidence of the establishment of a new bank, incorporating the performing assets of the former public banks (BNDS, SONAGA/SONABANQUE, SOFISEDIT), together with copies of the new bank's manual of operating procedures, initial balance sheet, and projected income statement;

(d) A plan to refinance the non-performing assets of the BIAOS by the Government of Senegal and by the BIAO;

(e) A plan to refinance the non-performing assets of the BSK and of MFIS, or evidence of revocation of the operating licenses of BSK and of MFIS;

(2) Recoveries

(a) Evidence of the establishment by independent accounting firms of a data base analyzing the non-performing assets of the problem banks;

(b) Evidence of the establishment of a committee of experts, attached to the Ministry of Economy and Finance, to review quarterly progress reports by the Ministry of Economy and Finance on the recovery of bad debts in the problem banks;

(c) Evidence of the establishment of a recovery structure incorporating the non-performing assets of USB and of the former public banks (BNDS, SONAGA, SONABANQUE, SOFISEDIT), together with copies of the recovery structure's manual of operating procedures, initial financial statements, and financial projections;

(d) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 4.0 billion;

(3) Mobilization of Domestic Savings

(a) Evidence that the double taxation of interest earnings on bank deposits has been eliminated by suppression of the Taxe sur les Prestations de Services (TPS) on such earnings;

(4) Improved Allocation of Credit

(a) Evidence that the Government of Senegal has terminated the provision of guaranties to private or public firms seeking loans from the Senegalese banks, except in instances of express legislative approval;

(b) Evidence that the Government of Senegal has renounced the practice of imposing on banks operating in Senegal participation in financings undertaken at the initiative of the public authorities, including financing of crop credit;

(c) Evidence that the National Credit Committee has terminated its policy of administrative allocation of credit by sector (politique sectorielle du crédit);

(d) Evidence that the Central Bank (BCEAO) has decided upon the elimination, over time, of the prior loan authorization requirement by means of progressive significant increases in the credit threshold above which prior loan authorization by the National Credit Committee is required, and that the threshold is to be applied solely to control the quality of credit;

(e) Evidence that the National Credit Committee accepts the principle of elimination of the prior loan authorization requirement and, in agreement with USAID, will proceed with progressive, significant increases in the prior loan authorization threshold;

b. Second Tranche ($5 million)-anticipated for June 1990

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of BICIS does not exceed 25 percent of the total share capital of the bank;

(2) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 7.8 billion;

(3) Improved Allocation of Credit

(a) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

c. Third Tranche ($5 million)- anticipated for December 1990

(1) Recoveries

Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 12.6 billion;

(2) Improved Allocation of Credit

(a) Evidence that the National Credit Committee in collaboration with the BCEAO headquarters, and with the BCEAO Agency for Senegal, has formulated a Plan of Action to increase the flexibility of the administered system of determining bank-by-bank credit ceilings, and to progressively replace it with a system based on objectively verificable indicators including, for example, the ratio of reserves to total credit outstanding;

(b) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the

National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

(c) Evidence that the Government of Senegal has formulated a Plan of Action to expand the availability of credit to small and medium-scale enterprises, and to agriculture, through the introduction of legal and financial innovations including, for example, mutual or cooperative credit societies or banks;

d. Fourth Tranche ($5 million)-anticipated for June 1991

(1) Privatization, Restructuring, and Improved Management of Banks

(a) Evidence that the participation of the Government of Senegal in the ownership of BIAOS does not exceed 18 percent of the share capital of the bank;

(2) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 16.6 billion;

(3) Improved Allocation of Credit

(a) Evidence that measures leading to the elimination of the prior loan authorization requirement have been taken, and that the National Credit Committee has proceeded with an increase in the prior authorization threshold acceptable to USAID;

(b) Evidence that the National Credit Committee has initiated implementation of the Plan of Action to replace administrative determination of bank-by-bank credit ceilings;

(c) Evidence that the Government of Senegal has initiated implementation of the Plan of Action to expand the availability of credit to small and medium-scale enterprises, and to agriculture;

e. Fifth Tranche ($5 million)- anticipated for December 1991

(1) Recoveries

(a) Evidence that recoveries of bad debt in the problem banks since October 1, 1988 have equaled or exceeded CFAF 19.2 billion;

2. Covenants

a. General

(1) The Government of Senegal agrees that it will not undertake any policy or action which would have the effect of changing any of the policies or actions undertaken by the Government in fulfillment of the conditions precedent of this agreement except as the parties may agree otherwise in writing.

b. Privatization, Restructuring, and Improved Management of Banks

(1) The Government of Senegal agrees to abstain from intervening in the management of banks so as to guarantee to bank managers, freely chosen by the relevant bodies, autonomy of decision-making, and full responsibility for their actions.

(2) The Government of Senegal affirms that it will promote interbank competition and free movement of interest rates within the context of banking regulations set by the Central Bank (BCEAO).

(3) The Government of Senegal agrees to substantially reduce its ownership in BICIS below the 25 percent maximum agreed in the Conditions Precedent to this Agreement, consistent with the possibilities for successfully marketing its shares to purchasers in the Senegalese private sector.

c. Recoveries

(1) The Government of Senegal affirms its neutrality with regard to the debtors of the Senegalese banks. The banks will have full latitude to diligently pursue bad debt recoveries whatever the status or individual characteristics of the debtor.

d. Improved Allocation of Credit

(1) The Government of Senegal affirms its support for inclusion of any non-performing credit guarantied by the Government of Senegal in the net position of the Government (Position Net du Government-PNG) with the BCEAO, following activation of any such guaranty. The Government of Senegal also affirms that it will actively support the efforts of the BCEAO authorities to arrive at a complete accounting of such credits guarantied by the Government of Senegal, and that it will actively assist the BCEAO authorities to continue to monitor the evolution of such credits.

(2) The Government of Senegal affirms that it will actively support phased implementation by the BCEAO authorities of a unified discount rate, aligned with the money market rate and with international interest rates, and permitting increased bank margins and increased access to credit for sectors of the economy formerly designated as priority.

e. Improved Supervision and Inspection of Banks

(1) The Government of Senegal agrees to request the BCEAO authorities to implement on-site inspections of each Senegalese bank on a schedule limiting the interval between inspections of individual banks to eighteen months or less.

(2) The Government of Senegal affirms its support for a regional Banking Control Commission to be established at the level of BCEAO headquarters, and empowered to review bank inspection reports, initiate audits, review audit reports, note infractions by banks, issue directives, impose sanctions and ensure follow-up. Sanctions will include denial of access to the operations and credit facilities of the BCEAO, removal of bank management officials, and closure of banks.

f. Administrative Operations of the A.I.D. Mission: The Government of Senegal agrees to contribute the equivalent of $2 million in local currencies (CFAF 600 billion) in support of administrative operations of the A.I.D. Mission in Senegal.

H. Monitoring and Evaluation Plan

As suggested by the Technical Assistance Plan described in Section III.F.6. above, monitoring and evaluation are critical elements of the proposed AEPRP-II program, and a substantial amount of technical assistance funding has been earmarked to ensure that the Government of Senegal and the U.S. Mission have access on a timely basis to information on key indicators at the input, output, purpose, and goal levels of the proposed program, as well as specific information required to evaluate the impact on A.I.D. target groups. (See Program Logical Framework, Annex G).

Because of the relatively short duration of program implementation (two and one-half years), the need for rapid feedback on early impacts and the continuing GOS need for feedback well after donor disbursements have ended, the AEPRP-II will establish a computerized management information system in the Department of Money and Credit of the Ministry of Economy and Finance. The system will be operated by Senegalese nationals with technical assistance on substantive matters provided by the planned long-term Senior Financial Advisor, and with technical assistance on programming and computer training provided by short-term consultants. (See Input Level of Program Logical Framework, and the Technical Assistance Budget in section III.F.6.). Additional substantive and technical assistance will be provided by the FSN economist/statistician located in the USAID/Senegal Program Economic Analysis Unit (PRM/EA). AEPRP-II will fund the required microcomputers, software and related supplies through December 1991.

First line U.S. oversight of the monitoring and evaluation component will be the responsibility of the Senior Financial Advisor, who will assist the GOS in the preparation of quarterly data updates required as input to the Mission's quarterly project reporting system. The Senior Financial Advisor will help incorporate into the GOS management information system the computerized baseline data established for PAAD preparation. The Senior Financial Advisor will expand the baseline data where necessary to include additional information required to monitor program progress and the impact of banking sector reform, particularly as they affect A.I.D. target groups, including small scale depositors, small and medium-scale enterprises and agriculture.

An end-of-program evaluation, in collaboration with the GOS, is scheduled for March 1992. The Senior Financial Advisor will participate in this evaluation along with two short-term external consultants also funded under the Technical Assistance budget. Data, analyses, and evaluation findings developed in the course of program implementation will be primarily for the use of the U.S. Mission, the Ministry of Economy and Finance, the Ministry of Plan, and the Office of the President. Data, analyses, and findings will likely be shared as well with the Studies Division and with the Credit Division of the BCEAO headquarters, and with the BCEAO Agency in Dakar.

Initial implementation of the monitoring and evaluation plan for AEPRP-II will focus on the delivery of program inputs (donor program assistance and technical assistance) and on the implementation of the program outputs (policy, regulatory, and institutional changes) associated with donor conditionality and BCEAO reform. (See Input and Output Levels of Program Logical Framework).

Of particular interest for evaluating the impact of the program on A.I.D. target groups will be the timely provision of technical assistance inputs by A.I.D. to the New Bank in order to improve its management and to enable it to find an external private partner. The New Bank will consolidate the sound portfolio of four former development banks and one small private bank, and will have as an important part of its target market both small and medium-scale depositors and small and medium-scale enterprises that traditionally have not been serviced by the banking sector in Senegal. The consolidation of the five existing banks into a smaller, more profit oriented commercial bank, the discipline brought by an external private partner, and the management assistance financed by A.I.D., together with a reformed policy environment, are expected to result in increased productivity of bank personnel, lower unit costs per transaction and higher net margins on small and medium-scale transactions than have been the norm in the past. Technical assistance inputs provided by CIDA to develop the legal and financial bases for the development of grass-roots financial intermediaries will also be monitored and evaluated. The capital of this type of financial intermediary would be held by depositors, and the institutions would operate on a cooperative or mutualist basis, mobilizing savings and providing credit to urban and rural customers not normally serviced by the existing banking system. It is expected that credit risk would be reduced as peers of the borrowers would assess credit applications and provide for social sanctions in case of default.

With regard to the Output level of the Program Logical Framework, it is assumed that the new grass-roots institutions to be studied by CIDA will not be fully in place and functioning by the time of the program evaluation which is scheduled for March, 1992. However, an Action Plan for the introduction of such grass roots institutions is part of the conditionality for release of the third tranche of U.S. assistance scheduled for December 1990, and initial implementation actions - such as the removal of legal barriers or negotiations with BCEAO on the rules governing credit societies - must take place before release of the fourth tranche of U.S. assistance, scheduled for June 1991. In addition, the New Bank should be fully staffed and functioning with U.S. technical assistance, and with an external private partner well before the March 1992 evaluation.

At the Program Output level, additional changes of particular importance for evaluating program impact on A.I.D. target groups include elimination of the preferential discount rate and introduction of wider margins on loans to small and medium-scale enterprises and to agriculture, provision of crop credit on a financially sustainable basis and improved management, supervision and inspections of banks required to better protect depositors' funds.

The achievement of the project purpose (to help establish a viable banking sector in Senegal) will be measured through changes in the solvency, liquidity, and profitability of the banking sector, utilizing baseline data included in the PAAD itself. In addition, changes in the ability of the banking system to diversify its deposit base and lending by reaching out to all sectors of the economy and by changing the mix of short, medium, and long-term credits will be evaluated. The project monitoring and evaluation system will include data of particular interest for evaluating the impact on A.I.D. target groups, including data on small-scale depositors (less than CFAF 500,000), data on loans to small and medium-scale enterprises and loans to agriculture, including crop credit. (See Purpose Level of Program Logical Framework).

The goal of AEPRP-II is to promote a dynamic market economy by restoring financial stability and expanding the role of the private sector in the economy. While the isolation of causal relationships will no doubt prove difficult, particularly during the short period of program implementation, the aim of the AEPRP-II monitoring and evaluation plan is to provide a system of baseline data with continuing updates, that will enable the Government of Senegal to follow and analyze some of the program's ultimate impacts on the share of the private sector in bank credit and bank deposits, the share of the private sector in national investment, the share of the private sector in GDP, the level of balance of payments and budget deficits, and the expansion of GDP and associated employment gains. (See Goal Level of Program Logical Framework).

I. Financial and Management Plan

1. Mission Management

USAID Senegal's Program Office will have direct responsibility for management of the AEPRP II program. Contracting for studies will be done by USAID in cooperation with the GOS. Follow-up on GOS expenditure of the CFAF local currency counterpart of the sector grant will be the responsibility of the Controller's Office. The Mission will work closely with the GOS

Ministry of Economy and Finance in implementing the program. Other involved ministries will be the Presidency, particularly its Financial Control Office, and the Ministry of Plan and Cooperation.

2. Local Currency Use

Local currency generated by the dollar disbursements will be used to reimburse the GOS for accelerated reduction of its liabilities to the banking system, including accelerated repayment of ONCAD debt. Reductions of GOS liabilities to the banking systems will contribute significantly to a return to a sound liquidity position for the banking system as a whole, with consequent elimination of the threat of a run on the banks and associated threats to production, income generation and employment. The return to a sound liquidity position will increase the ability of a restructured banking system to make new loans, to honor deposit withdrawal requests, to process trade credits and to clear checks through the Central Bank of West African Monitary Union, with positive impacts on the overall level of economic activity and employment. As public confidence in the liquidity and stability of the banking system increases, an overall increase in the mobilization of domestic savings is also expected to occur, with further positive impacts on the level of investment, output and employment.

3. Methods of Implementation and Financing

Disbursement and accounting will follow the procedures set out in the Memorandum of Agreement between USAID/Senegal and the GOS on Accounting Procedures dated September 24, 1987.

a. Dollar Disbursements (685-0292)

Dollar disbursements will be made upon fulfillment of (1) the conditions precedent and (2) the technicalities concerning local currency counterpart set out below. The dollar disbursements will be made by electronic transfer to a special GOS dollar account, managed by the BCEAO, at Citibank in New York. The BCEAO will then buy the dollars at the CFAF/dollar exchange rate of the day and will deposit the CFAF equivalent in a special GOS CFAF account at the BCEAO in Dakar. The BCEAO will place the dollars in the foreign exchange pool of the West African Monetary Union (WAMU). The GOS will draw on the special CFAF account by transfer to the general operating account of the GOS Treasury for the purposes agreed to between the GOS and USAID/Senegal, after confirmation by USAID/Senegal of receipt of a copy of accounting records justifying that use. USAID/Senegal will subsequently carry out an independent check of the accounting records. Such books and records as are related to this activity will be maintained for three years for audit purposes.

b. Release of the Local Currency Equivalent of the Dollar Disbursements

For local currency releases to reimburse the GOS for accelerated reduction of its liabilities to the banking system, the GOS will provide an accounting record of payments during the previous 12 months that have not already been reimbursed out of an existing (or retired) USAID-funded ESF or AEPRP special CFAF account or out of other counterpart funds generated by U.S. government programs or by those of other donors. The GOS will authorize USAID/Senegal to carry out spot checks with the banks of documentation concerning GOS repayments in order to verify that payments have been received by the beneficiaries concerned. The GOS will provide, at the request of USAID, all necessary information concerning the beneficiaries of payments made under the program.

c. Dollar Expenditures out of the Studies and Technical Assistance Component (685-0299)

A separate project authorization and project paper (PP) face sheet has been prepared for the studies and technical assistance component. These funds will be obligated under a project grant agreement (short form). Expenditures out of 685-0299 will be made by USAID/Senegal according to standard procedures.

4. Table of Methods of Implementation and Financing

The table of methods of implementation and financing for AEPRP II called for in Handbook 3, Chapter 3 C.3.e. is as follows:

Method of Implementation	Method of Financing	Amount ($000)
Dollar disbursement	Dollar Payment	32,000
Technical Assistance and Studies (direct contract)	Direct Payment	3,000
Total		35,000

5. 121 D Certification

Reproduced below is the text of the 121 (d) certification cable (Dakar 9809) drafted in the Controller's Office and signed by the Mission Director on August 17, 1989: I, Sarah Jane Littlefield, Mission Director, USAID/Senegal, certify that the Government of Senegal maintains a system of accounts with respect to Development Fund for Africa funds made available to the GOS for disbursement which provides adequate identification of and control over the receipt and expenditure of these funds concerning AEPRP II-Banking Sector Reform (685-0292/0299)." The 121(d) certification was approved in A.I.D. Washington on August 31, 1989.

IV. Feasibility Analyses

A. Social/Institutional Analysis

The primary institutions involved in the implementation of the AEPRP-II program are the Ministry of Economy and Finance, the BCEAO Headquarters, and the BCEAO Agency in Dakar. Within the Ministry of Economy and Finance, the primary administrative unit concerned will be the Department of the Director General of the Treasury, and more specifically the Office of Money and Credit in which the planned management information system for program monitoring and evaluation will be situated. Within the BCEAO Headquarters operation, the principal administrative units involved will be the Governor's Office, the Office of the Central Director for Credit, and the Office of the Central Director for Economic Studies. At the level of the

BCEAO Agency in Dakar, the principal administrative units involved will be the Office of the National Director, and the Credit Division. The individual administrative units involved are discussed separately in the sections immediately below.

1. The Ministry of Economy and Finance (See Figure 9)

   a. Mandate: The Ministry of Economy and Finance is in charge of developing and implementing the economic and financial policies of the Government of Senegal. The Minister of Economy and Finance:

      - is a member of the Council of Ministers of the West African Monetary Union;
      - chairs the National Credit Committee;
      - names jointly with the Minister of Planning Senegal's two members of the BCEAO Executive Board of Directors; and
      - appoints members of Senegal's national Bank Control Commission.

   b. Organization and Personnel: Figure 9 illustrates at a glance the organization chart of the Ministry of Economy and Finance. As of June 1989 the Ministry of Economy and Finance consisted of 4180 employees, including 435 highly trained professionals. Most of the professionals have been educated in Senegalese and/or French Universities where they have generally obtained Masters degrees either in Economics or in Law. Most have also received two years of prior training at the National High School of Public Administration in Dakar which provides specialized courses in Finance, Management, Taxes, and Law.

   c. Record: The Ministry of Finance is well organized and has demonstrated a significant capability to define and monitor the banking sector reform program to date. However, given the importance of the program, the GOS has sought, and the French Government has supplied, technical assistance in the form of a high level specialist from the Bank of France who has worked full time since early 1987 on the banking sector reform. The proposed AEPRP-II will fund a Senior Financial Advisor to USAID and to the Ministry of Economy and Finance to further enhance policy dialogue, policy analysis, and policy reform.

2. The Office of Money and Credit (See Figure 10)

   a. Mandate: Under the supervision of the Director General of the Treasury, the Office of Money and Credit is charged with:

      - drafting and implementing banking regulations;
      - controlling and supervising financial institutions; and insurance companies;
      - controlling foreign exchange; and
      - monitoring GOS lending policy to individuals and to public enterprises.

Figure 7

Senegal: Organization Chart of the Ministry of Economy and Finance

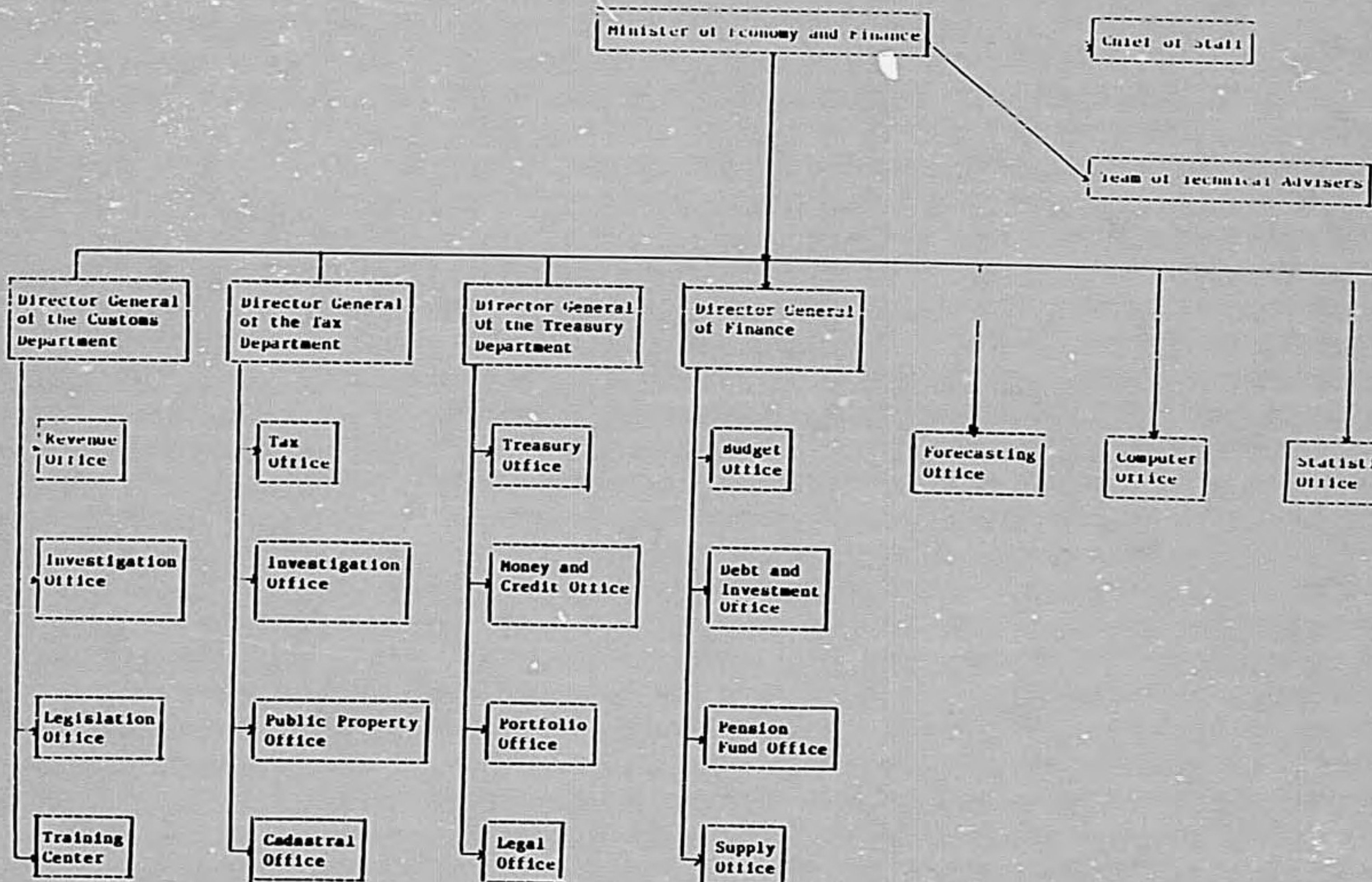

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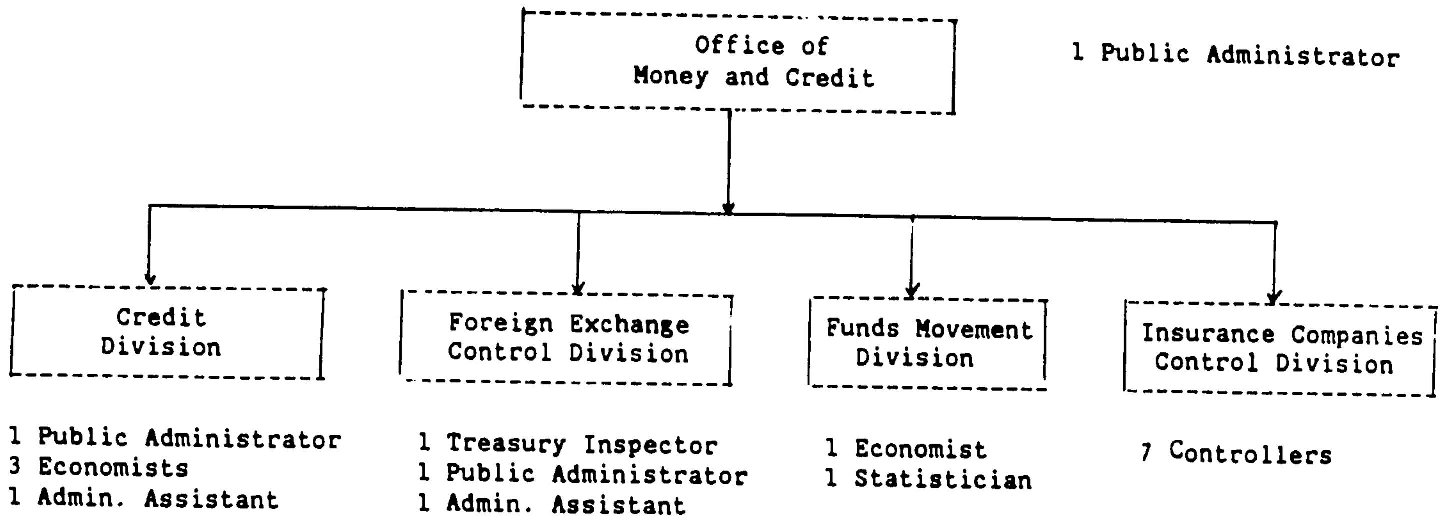
Figure 10

Senegal: Organization Chart of the Office of Money and Credit



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b. Organization and Personnel: Figure 10 illustrates at a glance the organization of the MOEF Office of Money and Credit. The Office of Money and Credit consists of 15 highly trained professionals and three mid-level professionals. The Credit Division which is involved in the banking sector reform program consists of 5 professionals: one Public Administrator who is the division chief; three Economists; and one Administrative Assistant.

c. Record: The Office of Money and Credit has not had to play a large role in the definition of the banking sector reform program, but it will have to play an increasing role in project implementation, monitoring, and evaluation in the near future. The Director of the Office of Money and Credit has requested U.S. assistance under AEPRP-II to provide the microcomputerardware, software, supplies, and training required to carry out the expanded role of the Office. With proper assistance the Office of Money and Credit will be in a position to monitor the implementation of donor conditionality, the reaction of the banking system to the new competitive environment, and the resulting changes in internal and external credit flows.

3. The BCEAO Headquarters (See Figure 11)

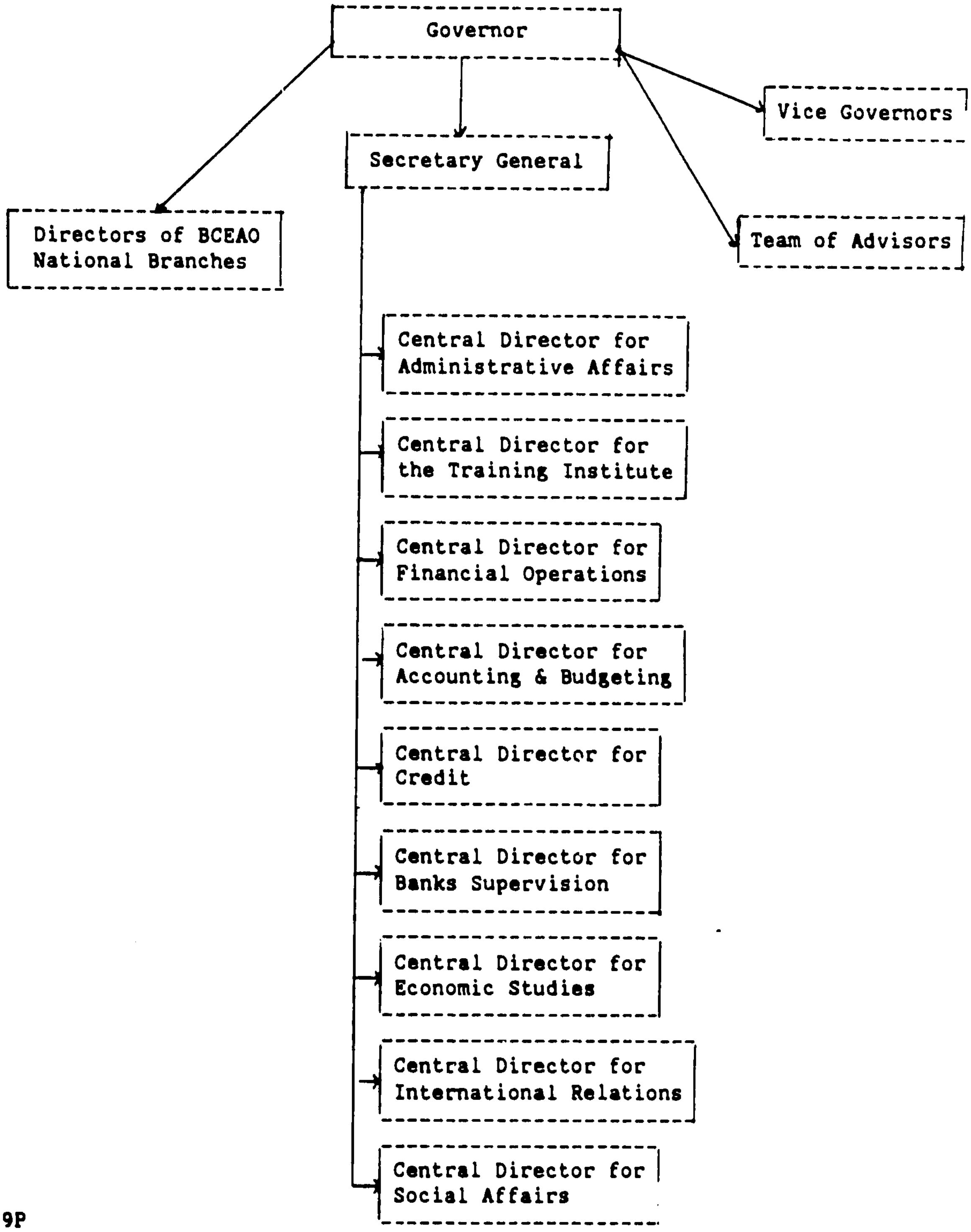
a. Mandate: The BCEAO is the common Central Bank of the seven WAMU member states. The BCEAO issues currency which is common to the member states and holds their external reserves in a common pool. The BCEAO is in charge of implementing the credit and monetary policies defined by the WAMU Council of Ministers and by the Executive Board with the assistance of a national Agency located in each of the seven member states. The BCEAO Headquarters is also in charge of on-site bank inspection throughout the WAMU area.

b. Organization and Personnel: At the apex of the BCEAO organization is the WAMU Council of Ministers. A Board of Directors consisting of two Directors from each of the seven member states, plus two other members from France, is entrusted with the overall management of the BCEAO. The Governor is the Chairman of the BCEAO executive Board and exercises the day-to-day management of the Bank. Figure 11 illustrates the general organization of the BCEAO Headquarters.

The BCEAO Headquarters currently consists of some 600 employees, 115 of whom are highly trained professionals. Most of the profesionnal staff were educated in France, but a few of them have also received education in U.S. universities. Most have also received a minimum of two years of training at the BCEAO Training Center.

Figure 11

Organization Chart of the BCEAO Headquarters



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c. Record: The BCEAO Headquarters has been thoroughly involved in all the aspects of the banking reform programs being implemented in WAMU area states. The Credit Department will be charged with monitoring banking reforms for the BCEAO, and the Studies Department will be charged with the implementation of new guidelines on monetary policy. These two departments are fully capable of performing their assigned functions . As regards bank supervision, the Inspections Department will be reinforced to permit it to more frequently audit commercial banks and financial institutions operating in the WAMU area. Over the next two to three years , the BCEAO plans to double the staff of the Inspections Department, and to reinforce its cooperation with the Bank of Belgium, and perhaps with the U.S. Federal Reserve, both of which could provide technical assistance and training in bank supervision.

4. The BCEAO National Agency (See Figure 12)

a. Mandate: The BCEAO National Agency is responsible for day-to-day, local operations, including credit policy emanating from the decisions of the Executive Board and from the National Credit Committee. It provides credit facilities to banks and to the Government. The National Director of the BCEAO is the Secretary of the national Bank Control Commission.

b. Organization and Personnel: The BCEAO National Agency consists of 258 employees including 38 high-level professionals and 21 mid-level professionals. Its professional staff have generally received the same level of education as those of the BCEAO Headquarters.

c. Record: The Credit Division (see Figure 13) of the BCEAO Agency has been fully involved in the Senegal banking reform program, and has worked closely with the Ministry of Economy and Finance in the definition of the strategy for the restructuring of the banking sector. Decisions on reinforcing the staff and training of the Credit Division will depend on the form of the decisions to be taken regarding the creation of a regional Banking Control Communications.

B. **Impact Analysis**

The proposed AEPRP-II, and the multidonor program of assistance to the GOS of which it is a part, is designed to ensure the stability of the banking sector in the near-term, and to reform the sector so that it can contribute efficiently to structural adjustments in the public, parastatal, industrial, and agricultural sectors. Such structural adjustments are required to meet the increasing demands for productive employment opportunities expressed, in part, in the election disturbances of 1988, and in the ethnic disturbances of 1989. The immediate beneficiaries of this program will include existing and potential bank customers, employees,

Figure 12

Senegal: Organization Chart of the BCEAO Agency

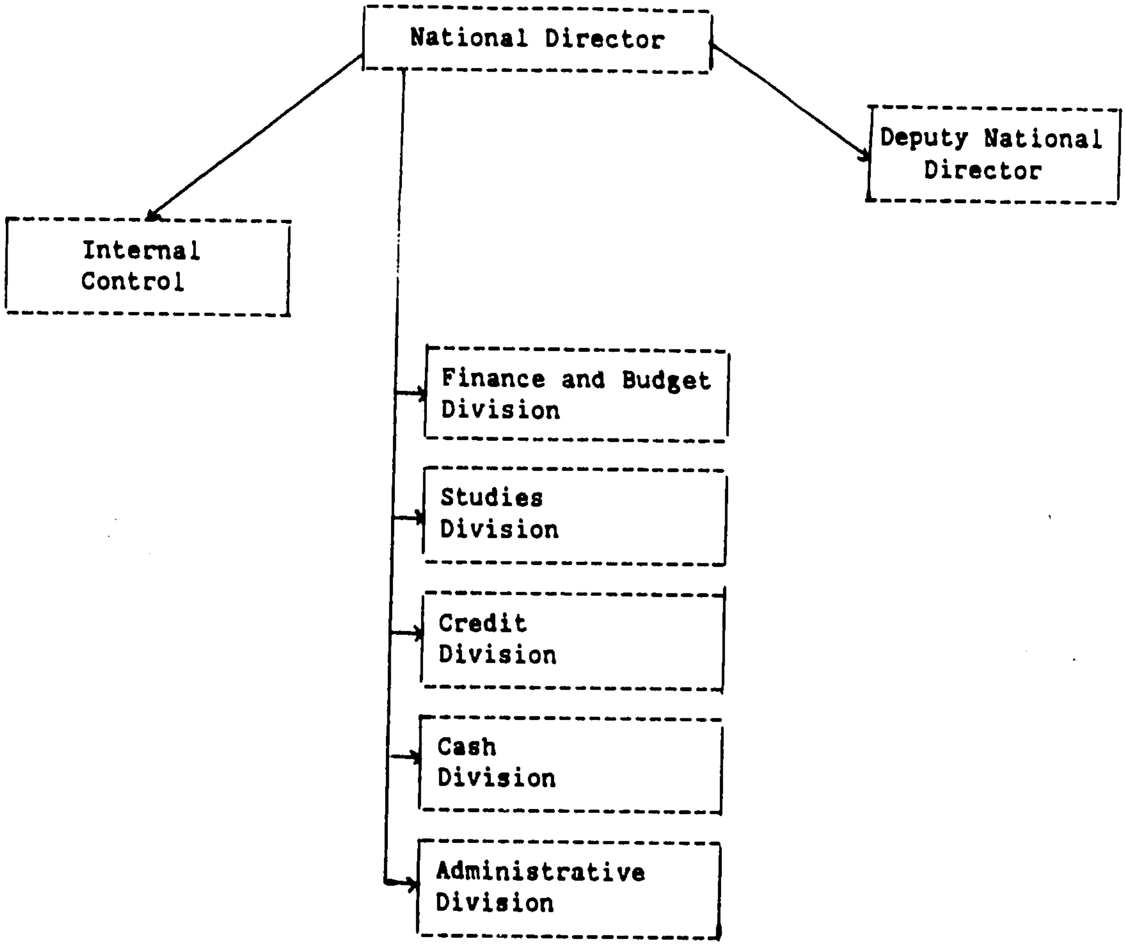

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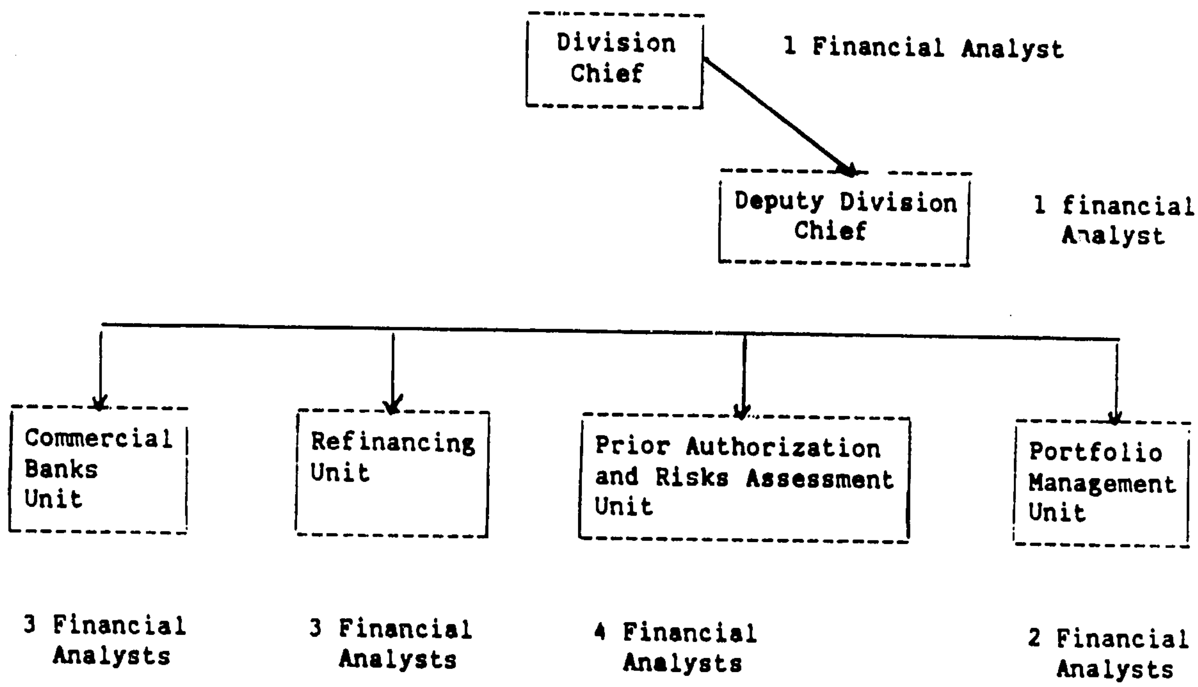
Figure 13

Senegal: BCEAO Agency; Organization Chart of the Credit Division



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managers, shareholders, and depositors. The broadest class of beneficiaries will include entrepreneurs, employees, and customers of existing and new enterprises that will benefit from increased savings, from increased availability of credit, from improved allocation of credit, and from related general economic expansion as capital markets are liberalized, broadened, and deepened. A specific Action Plan is included to expand the availability of credit to small and medium-scale enterprises, and to agriculture, through the introduction of legal and financial innovations including, for example, mutual or cooperative credit societies or banks, with appropriate technical assistance being provided by CIDA.

A "New Bank" consolidating the sound portfolio of four former development banks and one small private bank will have as an important part of its target market both small and medium-scale depositors and small and medium-scale enterprises that traditionally have not been fully served by the remainder of the banking sector in Senegal. A.I.D. will provide substantial technical assistance to the New Bank in order to improve its management and to enable it to find an external private partner. The consolidation of the five existing banks into a smaller, more profit oriented commercial bank, the discipline brought by an external private partner and the management assistance financed by A.I.D., together with a reformed policy environment, are expected to result in increased productivity of personnel, lower costs per transaction and higher net margins on small and medium-scale transactions than have been the norm in the past.

Beyond such measures, the substantially reduced role of the Government in the banking sector as shareholder, borrower and guarantor of public, parastatal and private borrowings, is expected to have substantial positive implications for the GOS budget. The estimated drain on the GOS budget for 1989/90 resulting from past mistakes in the banking sector exceeds $145 million or CFAF 43.5 billion (including CFAF 8.5 billion for ONCAD debt, CFAF 25.0 billion for crop credit, and CFAF 10.0 billion for banking sector reform). This is equivalent to some 14% of the total expenditure, and some 16% of ordinary tax revenue. While the consequences of past policies must now be dealt with in the short-run, the reform of banking sector policies currently under way will go a long way toward containing budget expenditures on the banking sector in the long run, allowing government funds to address the problem of development, infrastructure and services (See Goal level of Program Logical Framework).

The short-term positive impacts of the program of banking sector reform in Senegal should not be underestimated. These include a return to solvency and liquidity in the system as a whole with consequent elimination of the threat of a run on the banks, and associated threats to production, income generation, and employment, which could be significant. The return to normal operations of the BCEAO clearinghouse for checks, as the result of improved liquidity in the system, will have positive effects on the overall level of economic activity, and will resolve the problem of Government's inability to realize tax revenues paid via checks drawn on illiquid banks. As of June 30, 1989, Government holdings of checks drawn on illiquid banks amounted to CFAF 22 billion, (9% of annual tax revenues), representing a growing threat to the Government's ability to fund essential public services and investments. An even more serious threat to the Government budget which now has been vitiated relates to the explicit legal guarantee which

Government provides for all loans that have been discounted with the BCEAO. As of September 30, 1988, the total amount of such discounted loans at the nine problem banks exceeded CFAF 173 billion. To the extent that the CFAF 34 billion of program assistance to be provided by the external donors catalyzes a restructuring of the banking sector in Senegal, halts the mushrooming of tax arrears blocked in the banking system, and prevents a BCEAO call of Government guaranteed loans, the program of donor assistance is highly cost effective. This is especially true since the donors themselves are often called upon to finance a significant part of Government budget deficits, particularly when such deficits expand rapidly under the pressure of emergency conditions. More important than the short-term benefits of banking sector reform, however, are the long-term impacts that such reforms will have on increased mobilization of domestic savings, increased availability of credit, and improved credit allocation.

The primary impacts of banking sector reform on the savings rate are expected to occur as the result of increased public confidence in the banking sector, increased rates of interest paid on savings, and elimination of double taxation on interest earnings. As overall control of the money supply continues to improve, domestic rates of inflation should be maintained at reasonable levels, contributing to a continued period of positive real interest rates paid to savers. The elasticity of financial savings to real, after-tax interest rates in Senegal is not known with any accuracy, and would be difficult to determine on the basis of recent historical evidence due to wide variations in public confidence in the system, to significant annual variations in economic activity, and to the weakness of economic data in Senegal in general. As indicated in Section II.B.1. above, however, there is considerable evidence of the sensitivity of the composition of money supply to changes in real interest rates, at least during the decade of the 1980s. Although the elasticity of financial savings with respect to real, after-tax interest rates would certainly be less than the effect on any individual component of money supply, it is likely that this elasticity would still be positive. By improving returns to savers - both small and large - and increasing the confidence level in the financial system, it is predicted the ratio of savings plus demand deposits to GDP will return to the FY1983 peak level and that deposits will increase by CFAF 62 billion($207 million) to CFAF 310 billion ($1,033 million). While these figures are only illustrative, they give some indication of the order of magnitude of changes which are possible as reform of the banking sector proceeds.

If small and large savers are included among the primary beneficiaries of banking sector reform in Senegal, it is clear that many borrowers will face increased interest charges as the cost of money to banks increases. The increased cost of funds mobilized from savers will be particularly noticeable in an environment in which the BCEAO is also raising its discounts rate to reflect the international cost of money, and in which the 35 percent ceiling on discount with the BCEAO is increasingly being enforced. Particularly hard hit will be those parastatal and private sector enterprises that have benefited in the past from Government loan guarantees which will now be eliminated except in instances of express legislative approval. The transparency required to obtain such legislative approval is a serious limiting factor, as is the fact that such approval reduces the remaining budget authority available for normal government operations. The elimination of the preferential discount rate by the BCEAO, effective

October 1, 1989, will also increase the cost of lending by the current banking system to agriculture, small and medium scale enterprises, and housing. The cost of "crop credit" extended to the marketing boards will similarly increase with the elimination of the preferential discount rate.

Offsetting the increased cost of credit to some borrowers will be the increased availability of credit as incentive systems, including increased margins, replace the administrative practices of the past which were in any case largely ineffective in achieving their quantitative targets. As USAID's own history of lending under the Community and Enterprise Development Project demonstrates, access to credit is frequently more important to small scale borrowers than the actual cost of credit. Beyond such considerations, the replacement of Senegal's administered system of allocating credit with a more market-oriented approach should have substantial efficiency effects. As the number of Government guaranties to large parastatal and private firms is sharply reduced, small and medium scale firms should be able to compete on a more even footing. Moreover, as credit is increasingly allocated on the basis of willingness and ability to repay, the proportion of sound loans in the banking system should also increase. A 20 percent reduction in the bad debt of the Senegalese banking sector outstanding as of September 30, 1988 would have amounted to some CFAF 43 billion, an amount larger than the total package of program assistance being provided by the external donors as part of the current bank restructuring effort. Again, while such a figure is illustrative only, it demonstrates the order of magnitude of possible improvements as reform of the banking sector in Senegal proceeds.

If the level of financial savings in Senegal can be raised, and if the resulting increase in credit availability can be allocated more effectively, there should be important secondary impacts on the level and structure of production and on overall employment. Senegal's current industrial structure is highly concentrated, heavily indebted, and largely unprofitable. The availability of subsidized credit in large amounts, often with a Government guaranty, and sometimes with uncertain requirements as to repayment, has resulted in excessive borrowing for capital expenditures and in a low level of labor absorption. As the cost of borrowed capital increases, and as the volume of credit is more closely related to willingness and ability to repay, the exaggerated capital intensiveness of the Senegalese structure of production should be reduced. In addition, if the World Bank is successful in its efforts to negotiate increased flexibility in the labor market in Senegal, a further improvement in the price of labor relative to that of capital should occur which would enhance employment opportunities in the long run.

With regard to the banking sector itself, it appears that the sins of the policymakers, the bank managers, the bank inspectors, and certain borrowers are in part being visited upon bank employees. Although overmanning has been rife in the past, and productivity and customer service have often been poor, the impact of bank restructuring on employment in the banking sector has come as a shock to the members of the union of banking professionals. Of the 889 employees of the former public sector banks, USB, and ASSURBANK, some 464 will lose their jobs in the restructuring process that lies ahead. While the numbers are not large in relation to a potential labor force of some 3.2 million, the personal impact has been heavy, and the psychological impact on the urban elite in general has been significant. To attenuate the effects of these job losses, the Government of Senegal is earmarking some CFAF 2 billion to finance severance pay at a level some three times higher than the legal requirements, while also assisting former employees to find other work through the efforts of a placement firm, and through access to concessional loans available through its Delégation à l'Insertion, à la Réinsertion et à l'Emploi, an agency attached to the Office of the President.

C. Special U.S. Interests

Senegal is a nonaligned, moderate, functioning democracy now in its twenty-seventh year of independence. Founding President Leopold Senghor resigned at the end of 1980 and was succeeded by his Prime Minister, Abdou Diouf, in a peaceful transfer of power. General elections were held in 1983 and 1988 which returned Diouf to the Presidency for five-year terms and which gave his Socialist Party (PS) a majority of seats in the 120-member parliament. Despite the predominance of the PS, there are fifteen other legally recognized parties which are free to hold meetings, advocate their platforms, and generally participate in the political life of the country, an almost unique record in Africa.

The Government has instituted major economic reforms aimed at reducing state intervention in the agricultural and industrial sectors and at encouraging the private sector to take its place. These reforms, worked out in collaboration with the IMF, IBRD, and major western donors, have begun cautiously, but the results to date are encouraging.

Senegal maintains its position as a positive force for moderation and reason on the international scene. President Diouf's tenure as Chairman of the Organization of African Unity saw that regional body infused with a new dynamism and a new willingness to confront the continent's difficult economic and development problems. Within the Non-Aligned Movement and in UN fora, Senegal is playing a role towards encouraging moderate policies and moderate leadership. Senegal has in the past provided troops for various peacekeeping operations, including Shaba II, the United Nations Interim Force in Lebanon (UNIFIL), and Chad.

Senegal's geostrategic location makes Dakar's air and maritime port facilities of special importance to the U.S. Senegal is a transport nexus and entrepot for West Africa, having among the best air, seaport, and communications facilities in the region. Dakar airport serves as the primary transatlantic emergency landing site during launchings of the NASA space shuttle, and has handled United States Air Force shipments of emergency military supplies to Chad. The British Royal Air Force used Dakar as a refueling base for its supply flights to the Falkland Islands.

Senegal represents an island of stability and moderation among its neighbors. Senegal's tranquil record since independence and its respect for and encouragement of democratic practices serve as examples for all states in the region. Helping Senegal preserve this enviable position is in the interests of the U.S. and other western-style democracies.

U.S. interest in and support for Senegal is demonstrated by the frequent high-level contacts between the two Governments. Secretary of State George Shultz chose Dakar as the first stop on his January 1987 visit to Africa, and made a major speech on African (specifically Senegalese) economic reform. Secretary of the Treasury James A. Baker visited Dakar in May 1988 and made a major speech to the BCEAO in support of Senegal's structural adjustment reforms as an example for Africa. President Diouf has been to the United States several times in the last few years, for an official visit to Washington and for various meetings of the United Nations; each time he has had contacts with the most senior levels of the U.S. Government.

To sum up, Senegal has a solid political infrastructure and intellectual heritage, though this heritage rests on a weak, unstable economic base. Senegal's influence as a nonaligned country extends well beyond its borders, and because of its mature, centrist posture, and its quiet but effective role in international affairs, it is held in esteem by many less developed countries, Western Europe and the United States.

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ANNEX A

STATISTICAL TABLES

Table I

Senegal: List of Commercial Banks and Financial Institutions as of June 30, 1989

Commercial Banks

	Acronym	
1.	ASSURBANK	Assurbank *
2.	BCCI	Banque du Crédit et du Commerce International, Overseas, Limited
3.	BHS	Banque de l'Habitat du Sénégal
4.	BIAOS	Banque Internationale pour l'Afrique Occidentale-Sénégal *
5.	BICIS	Banque Internationale pour le Commerce et l'Industrie du Sénégal
6.	BNDS	Banque Nationale de Développement du Sénégal *
7.	BSK	Banque Sénégalo-Koweitienne *
8.	BST	Banque Sénégalo-Tunisienne
9.	CITIBANK	Citibank
10.	CLS	Crédit Lyonnais Sénégal, formerly USB (Union Sénégalaise de Banque)*
11.	CNCAS	Caisse Nationale du Crédit Agricole du Sénégal *
12.	MFIS	Massraf Fayçal Al Islami du Sénégal *
13.	SOFISEDIT	Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme *
14.	SGBS	Société Générale de Banque au Sénégal
15.	SONABANQUE	Société Nationale de Banques *

Financial Institutions

1.	CCP	Caisse des Chèques Postaux
2.	CE	Caisse d'Epargne du Sénégal
3.	LOCAFRIQUE	Compagnie Ouest-Africaine de Crédit-Bail
4.		Crédit Sénégalais.
5.	SOCRES	Société de Crédit et d'Equipement
6.	SDE	Société Dakaroise d'Equipement
7.	SOFIA	Société Financière d'Intermédiations et d'Affacturage
8.	SOGECA	Société Générale de Crédit Automobile
9.	SONAGA	Société Nationale de Garantie et d'Assistance au Commerce

Note: * So-called "problem banks."

Source: BCEAO, USAID Staff.

Table 11

Senegal: Factors Affecting Money Supply, FY 1980-88

Fiscal year ending June	1980	1981	1982	1983	1984	1985	1986	1987	1988
	(Annual changes in billions of CFA francs)								
Net foreign assets	-21.6	-44.3	-21.8	-45.5	-19.6	-31.1	-14.3	36.4	-28.6
Net domestic assets a/	23.9	45.0	78.9	74.2	29.4	38.8	21.6	14.2	32.6
Of which: claims on Government (net)	(1.0)	(11.8)	(40.3)	(20.2)	(30.5)	(5.7)	(15.5)	(1.8)	(6.0)
Money and quasi-money	2.3	0.7	57.1	28.7	9.8	7.7	7.3	50.6	4.0
	(Annual changes in percent of money and quasi-money at beginning of period)								
Net foreign assets	-12.1	-24.6	-12.0	-19.1	-7.3	-11.2	-5.0	12.5	-8.4
Net domestic assets a/	13.4	25.0	43.6	31.2	11.0	14.0	7.6	4.9	9.5
Of which: claims on Government (net)	(0.6)	(6.5)	(22.3)	(8.5)	(11.4)	(2.1)	(5.5)	(0.6)	(1.8)
Money and quasi-money	1.3	0.4	31.5	12.1	3.7	2.8	2.6	17.4	1.2

Note: a/ Domestic credit minus other items (net).

Source: Table 9.

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Table III

Senegal: GDP, Money, and Velocity of Circulation, FY 1980-88

Fiscal year ending June	1980	1981	1982	1983	1984	1985	1986	1987	1988 (prelim.
					(In billions of CFA francs)				
GDP	604.7	648.6	757.0	891.8	977.5	1,083.8	1,223.1	1,338.2	1,432.9
Money a/	121.2	137.9	163.2	189.0	189.2	191.6	193.6	226.9	210.4
Money + quasi-money a/	161.1	177.7	216.9	262.3	272.7	287.1	300.1	333.6	332.8
					(Ratios)				
Velocity of circulation of money	4.99	4.70	4.64	4.72	5.17	5.66	6.32	5.90	6.81
Velocity of circulation of money + quasi-money	3.75	3.65	3.49	3.40	3.58	3.77	4.08	4.01	4.31

Notes: a/ Mid-fiscal year, i.e., end-December stocks.

Source: Tables 1 and 9.

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Annex Table IV

West African Monetary Union (UMOA): Selected Exchange Rates, Average and End of Period, 1980-88 (CFAF Per U.S. Dollar)

Part A: Average Exchange Rates

Year	Year Ending March 31st	GOS FY Year Ending June 30th	UMOA Banking Year Year Ending September 30th	CY Ending December 31st
1979	219.56	216.66	214.75	212.72
1980	211.23	209.21	207.80	211.28
1981	220.16	235.24	256.33	271.73
1982	285.92	296.67	310.84	328.61
1983	339.76	354.66	367.39	381.07
1984	398.80	409.52	422.02	436.96
1985	457.64	471.13	467.71	449.26
1986	414.86	386.60	362.74	346.31
1987	332.81	318.79	310.76	300.54
1988	294.80	291.72	317.52	299.83

Part B: End of Period Exchange Rates

Year	Year Ending March 31st	GOS FY Year Ending June 30th	UMOA Banking Year Year Ending September 30th	CY Ending December 31st
1979	214.85	214.25	205.03	201.00
1980	223.93	204.35	209.98	225.80
1981	247.90	285.88	278.35	287.40
1982	312.10	341.45	356.90	336.25
1983	363.48	381.88	400.45	417.38
1984	399.00	427.23	464.20	479.60
1985	471.35	465.85	407.63	378.05
1986	356.63	350.58	331.10	322.75
1987	300.65	305.28	305.90	267.00
1988	281.25	293.58	319.78	302.95

Source: IMF. International Financial Statistics.

ANNEX B

SENEGAL: SUMMARY OF CURRENT STATUS OF PROBLEM BANKS

ANNEX B

Senegal: Summary of the Current Status of Problem Banks

ASSURBANK

Capital: CFAF 1 billion
of which Six Senegalese Insurance Companies. 100%.

Loans: CFAF 8.2 billion
of which - Current CFAF 1 billion;
- Past Due CFAF 6 billion.

Status: ASSURBANK, the two-year old successor to the Banque Commerciale du Sénégal, will be folded into the New Bank. It will take with it its capital (notional) of CFAF 1 billion, its current loans of CFAF 1 billion, and 43 employees. The reasons for this relatively recent (8/89) decision are related to the need for more private capital to keep the GOS percentage of the capital in the New Bank below the 25% maximum agreed upon with the donors, and to the desire of the GOS to maintain good relations with the largest Senegalese insurance companies (and their French parents).

BANQUE INTERNATIONALE POUR L'AFRIQUE OCCIDENTALE (BIAOS)

Capital: CFAF 1.1 billion

of which	- BIAO (total network)	-57%;
	- GOS	-25%; and
	- 2 Private Senegalese	-18%.

Loans: CFAF 74 billion
of which - Current CFAF 39 billion; and
- Past Due CFAF 35 billion.

Status: BIAOS has been restructured since July 1988. It has closed 8 of its 13 branches, closed 15,000 small checking/overdraft accounts, reduced staff by 170 employees, and collected past due loans which are expected to total more than CFAF 1 billion by 9/30/89. The bank has only been using its recoveries to make new loans, mainly to larger commercial enterprises, which have lower credit risk and which generate fee income. The bank is getting out of real estate loans (no fees and too long-term) and small loans to individuals and to small and medium enterprises (too costly to manage and too high credit risk in the Bank's view).

Of the past due CFAF 35 billion, CFAF 13 billion has already been provisioned for, some CFAF 6 billion is considered recoverable (or has been recovered) and CFAF 16 billion needs to be dealt with. The GOS has agreed to "retain" 35 % (its former shareholding) or CFAF 5.7 billion of this amount. "Retain" means either 1) lending the BIAOS the CFAF 5.7 billion at 2% for 30 years (10 years grace) from the donors' disbursals or 2) putting the CFAF 5.7 billion in the Recovery Structure. BIAOS would have liked the GOS to refinance as well the CFAF 4.5 billion of accumulated interest on ONCAD debt that the BCEAO is not refinancing. However, the BCEAO is refinancing CFAF 5.5 billion of principle. While waiting for the CFAF 5.7 billion from donor disbursements, BIAOS received CFAF 500 million on 6/30/89 from disbursements of the French contribution to banking sector reform in Senegal. This preliminary disbursement allowed the bank enough liquidity so that they expect to break even or be slightly profitable for the year ending 9/30/89. (If there are any profits, they will be used to provision bad debts).

Once the bank is profitable, it will look for new private Senegalese shareholders. The current plan is to increase the capital by CFAF 400 million, which would decrease the GOS participation to 18%.

BANQUE SENEGALO-KOWEITIENNE

Capital: CFAF 4 billion
of which - Kuweit Foreign Trading
Investment and Contracting Co. -50%;
- Kébé Holding Co. (Private Senegalese) -45%; and
- the GOS - 5%.

Loans: CFAF 52 billion
of which - Current CFAF 35 billion; and
- Past Due CFAF 17 billion.
of which - Kébé Holding CFAF 6 billion.

Status: BSK has not been included in the concessionary BCEAO refinancing of the banks. According to BSK, this is due to a general perception that the Bank has wealthy share-holders and can take care of itself. The Board of Directors has authorized, and the shareholders have agreed to, a pro rata increase in capital from CFAF 4 billion to CFAF 7 billion. The Board of Directors and the shareholders have also agreed to a pro rata subordinated line of credit of CFAF 3 billion to be repaid on concessionary terms. The Kuwaitis will, however, only put in their part of the capital, and the subordinated line of credit after Kébé Holdings have repaid their loans (and Kébé Holdings has put the loan repayment in as subordinated debt). The Kébé Group has CFAF 25 billion tied up in real estate and has had some trouble liquidating in a descending market complicated by the Senegalese/Mauritanian problems. In any case, BSK's proposed capital/line infusions would not be enough to get the bank back in line with the central bank's capital/liquidity ratios. The GOS has advanced its portion (CFAF 150 million) of new capital in the Bank, and paid off its loans from BSK. BSK is currently looking for a way to raise some CFAF 10 billion or face closure October 1989 when the New Bank starts operations.

CAISSE CENTRALE DE CREDIT AGRICOLE DU SENEGAL (CNCAS)

Capital:	CFAF 2.3 billion	
of which	- GOS	28%
	- Other State	21%
	- French Parastatals	20%
	- BCEAO	15%
	- Senegalese Commercial Banks	10%
	- Private Senegalese	6%

Loans: CFAF 10.7 billion
of which - Current 10.3 billion
of which 8.9 billion crop credits*
- Past Due 0.4 billion

* Crop credits are guaranteed by the GOS and are, therefore, never recognized as past due.

CNCAS has accumulated losses of CFAF 600 millions (26% of its capital) and non-performing loans are 31.7% of the portfolio (exclusive of crop credits). CNCAS is being dealt with separately from the other bank restructurings as it is considered part of the restructuring of the agricultural sector and not the banking sector. French technical assistants are in the process of reviewing the situation and expect to present a plan to the GOS by the end of 1989. The plan will include reduction of GOS ownership to less than 25% and transformation of the bank into an agricultural co-operative system.

CREDIT LYONNAIS SENEGAL (CLS), formerly Union Sénégalaise de Banques (USB1)

		USB 1 (original)	CLS (new)	USB 2 (remaining)
Capital:		2 billion	2 billion	0.5
of which	- GOS	62%	5%	100%
	- Other State	13%	0	0
	- Crédit Lyonnais	19%	95%	0
	- Other Foreign	6%	0	0
Loans CFAF:		100 billion	18 billion (to be 24 billion)	82 billion
of which	- Current	0	0	0
	- Past Due	0	0	82 billion
Employees		330	115	60
Branches		9	2	5 (to be 1)

The original USB (USB1) was divided into CLS and USB2 on July 3, 1989. USB2 is in the process of transferring assets and liabilities to CLS, closing down its various operations (it stopped taking deposits at the end of July), and collecting past due loans (CFAF 200 million in July). USB2 is in the process of seeking GOS approval to create its own recovery bank in October instead of being folded into the Recovery Bank being set up to consolidate the non-performing assets of the 4 state banks and Assurbank.

MASSRAF FAYSAL AL ISLAMI-SENEGAL (MFIS)

Capital: CFAF 1.75 billion
of which - Dar Al Maal Al-Islami Trust (DMI) 75%; and
- Private Senegalese 25%.

Loans: CFAF 7 billion
of which - Current CFAF 4 billion; and
- Past Due CFAF 3 billion.

Status: MASSRAF was the first Islamic bank in Africa; DMI is chaired by the Saudi Prince Mohamed Al Faysal Al-Saud. The largest Senegalese shareholder is Djily Mbaye, a prominent Senegalese commodity trader who is a friend of the Saudi royal family.

The shareholders have agreed to a pro rata increase in capital of CFAF 1.6 billion by 9/30/89. DMI will also make a 3 year interest free investment account (deposit equivalent) of CFAF 330 million, and will refinance CFAF 2.5 billion of loans over 10 years at 6%. Thus, Massraf does not need concessionary BCEAO or donor funding.

Massraf will cut 10 of its 42 employees and replace some less qualified staff with others who are more qualified. The bank is planning to concentrate its portfolio on trade and foreign exchange transactions and on large companies, as it had a bad experience with SME in the current economic crisis. It expects to recover the balance of its past due portfolio, not covered by capital infusion, over 5 to 10 years, and to be profitable by September 1991. The BCEAO and the Senegalese Ministry of Finance have both approved the refinancing plan.

BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST (BCEAO)

Summary of Banking Reform Measures. Approved July 1989.

1. **Money Market:** The BCEAO will implement rules making the money market more attractive than the BCEAO discount rate (effective 10/1/89) and unify the BCEAO's discount rates (10/1/89). The money market will be expanded to include non-bank financial institutions (12/89) and various tenors not now available (during 1990).

2. Government Financing: Past due loans guaranteed by the government will be included in the total outstandings allowed under BCEAO rules (20% of previous year receipts) (1/90). Each bank will have a lending ceiling for government credits (1/90) as a transition to rules consolidation state credits (10/90).

3. Crop Credit Financing: Crop credits, whether refinanced in the money market or at the Central Bank, will be included in a bank's 35% maximum discount level (10/90), will be subject to normal interest rates (10/89), and will be subject to normal credit standards (10/90). The crop prices to be used in determining the amount to be financed and the volume to be financed will be determined each year by a group composed of the BCEAO, the Government, and the Commercial Banks. Any subsidy to be financed must have committed financing in place to cover the subsidy before it is financed (10/89).

4. Sectoral Credit Allocation: Sectoral credit allocation will be eliminated (10/90).

5. Prior Authorizations: The system of prior authorization and credit criteria will be reviewed (10/89).

6. Bank Commissions and Fees: Commissions and fees will be simplified in kind and number (10/89). Commissions on incoming transfers from abroad will be eliminated and a 2% tax on payments leaving the country will be imposed and turned over to the national treasuries (10/89).

7. Bank Supervision and Inspection: Internal auditing systems will be established (10/89). Bank surveillance procedure will be established with a regional banking control commission as the main supervisory body (during 1990).

ANNEX C

DRAFT TRUST FUND AGREEMENT

TRUST FUND AGREEMENT

BETWEEN The Republic of Senegal

AND The United States of America, Acting through the Agency for International Development

1. INTRODUCTION

In accordance with the Agreement f·r Economic, Financial, Technical and Related Assistance between the Government of the Republic of Senegal (GOS) and the United States of America (U.S.), dated May 13, 1961 in which the United States expressed its desire to assist Senegal in its efforts to develop and stabilize its economy, the Government of Senegal and the United States, acting through the Agency for International Development (A.I.D.) agree to the following arrangements in the establishment and implementation of a Trust Fund. The purpose of the Trust Fund is to provide a means for the Government of Senegal to share the costs of supporting the U.S. economic assistance program in Senegal.

2. TRUST FUND

There is established a Trust Fund (the Fund) in the name of the United States Disbursing Officer. The use of the Fund is subject to the terms and conditions of this agreement. The Fund will consist of Senegalese currency which may be deposited in the Trust Fund account by the GOS from time to time.

3. **USES OF THE FUND**

The currencies deposited into the Fund will be utilized for the administrative support of the A.I.D. Mission and its activities in Senegal, including but not limited to the following:

a. Payment of salaries of personnel hired locally;
b. Utilities (e.g. electricity, telephone, water, other);
c. Travel expenses of A.I.D. personnel;
d. Office equipment and supplies.

4. **DISBURSEMENT OF FUNDS**

A.I.D. may disburse funds deposited into the account for the purposes as specified in Section 3, in a manner deemed appropriate by the Director of the AID Mission, or his or her designee. A.I.D. will disburse funds hereunder in accordance with normal USAID disbursement procedures and practices.

5. **EFFECTIVENESS OF AGREEMENT AND TERMINATION**

The agreement will remain in effect until terminated by mutual written agreement of A.I.D. and the GOS, or upon termination of the United States assistance program in Senegal, whichever is earlier. Termination of the agreement will terminate the obligations of the parties hereunder, except with regard to disbursement obligations which may have arisen pursuant to non-cancelled commitments entered into with third parties prior to the termination of the agreement, and subject to the procedures contained in Section 10.

6. **RECORDS AND INSPECTIONS:**

A.I.D. will maintain records on all disbursements from the account. Such records will be maintained for a period of three years following the last disbursement from the account and may be inspected by representatives of the GOS at any reasonable time.

7. **TITLE TO PROPERTY**

A.I.D will maintain records on non-expendable property directly utilized by AID and procured with funds supplied under this agreement. These records may be inspected by representatives of the GOS at any reasonable time. All non-expendable property so purchased shall be transferred to the GOS when no longer required for the support of United States assistance programs in Senegal. Proceeds of sales of such non-expendable property during the life of this agreement shall be deposited into the account.

8. **REPORTS**

A.I.D. will prepare and furnish an annual report to the GOS stating the amount and timing of deposits into the account during the reporting period, expenditures from the Fund and the balance remaining in the account at the end of the reporting period.

9. **CONSULTATIONS AND AMENDMENTS**

A.I.D. and the GOS will cooperate to assure that the purposes of the agreement are carried out and will, at the request of either, exchange views on the agreement and the activities financed under the agreement. The agreement may be amended by any form of written agreement between A.I.D. and the GOS.

10. **AVAILABILITY OF FUNDS**

Funds made available under the agreement will remain available until expended. In the event of termination of the agreement pursuant to Section 5, funds which have not been committed pursuant to non-cancellable commitments entered into with third parties prior to termination will be disbursed from the account for purposes to be mutually agreed upon by A.I.D. and the GOS.

11. **COMMUNICATIONS**

Any notice, request, document, or other official communication submitted by the GOS or A.I.D. to the other pursuant to this agreement, will be in writing. Notices will be deemed effective when delivered to AID or the GOS at the following addresses:

GOS:

A.I.D
Director, USAID
c/o American Embassy
B.P. 49, Dakar.

Other addresses may be susbtituted for the above upon the giving of written notice.

12. REPRESENTATIVES

For all purposes relevant to this agreement, the GOS will be represented by the individual holding or acting in the office of the Minister of and A.I.D. will be represented by the individual holding or acting in the office of USAID Director, each of whom, by written notice, may designate additional representatives for all purposes related to this agreement other than amending this agreement. A.I.D. and the GOS will provide to each other the names of the representatives and duplicate copies of specimen signatures. A.I.D. and the GOS may accept as duly authorized any instrument signed by such representatives in implementing this agreement until receipt of written notice of revocation of a representative's authority.

In witness whereof, the Government of Senegal and the United States of America each acting through its duly authorized representative, have caused this agreement to be signed in their names and delivered as of the day and year first above written.

THE REPUBLIC OF SENEGAL	FOR THE UNITED STATES OF AMERICA
By:________________	By:________________
Title:________________	Title:________________
Date:________________	Date:________________

ACCORD RELATIF AU FONDS FIDUCIAIRE

ENTRE La République du Sénégal

ET Les Etats-Unis d'Amérique agissant par l'intermédiaire de l'Agence pour le Développement International

1. INTRODUCTION

Conformément à l'Accord sur l'Assistance économique, financière, technique et dans les domaines connexes conclu entre le Gouvernement de la République du Sénégal (G.R.S.) et les Etats-Unis d'Amérique (U.S.) en date du 13 mai 1961 aux termes duquel les Etats-Unis ont exprimé leur désir d'aider le Sénégal dans ses efforts de développement et de stabilisation de son économie, le Gouvernement de la République du Sénégal et les Etats-Unis d'Amérique agissant par l'intermédiaire de l'Agence pour le Développement International (AID) conviennent des dispositions suivantes pour la constitution et le fonctionnement d'un Fonds fiduciaire. Le but du Fonds fiduciaire est de fournir au Gouvernement du Sénégal les moyens de participer aux coûts de soutien du programme d'assistance économique des Etats-Unis au Sénégal.

2. LE FONDS FIDUCIAIRE

Il est constitué un Fonds fiduciaire (le Fonds) au nom du Fonctionnaire des Etats-Unis chargé des déboursements. L'utilisation de ce fonds est soumise aux termes et conditions du présent accord. Le Fonds consistera en francs CFA qui pourront être déposés de temps en temps par le Gouvernement du Sénégal dans le compte du Fonds fiduciaire.

3. UTILISATIONS DU FONDS

Les francs CFA déposés dans le Fonds serviront au soutien administratif de la Mission de l'AID et de ses activités au Sénégal comprenant, mais sans toutefois s'y limiter, ce qui suit:

a. Paiement des salaires du personnel engagé localement;

b. Charges (par exemple: électricité, téléphone, eau et autre);

c. Matériel et Fournitures de Bureau.

4. DEBOURSEMENTS DES FONDS

L'AID pourra débourser les fonds aux fins spécifiées à la Section 3 de la manière que le Directeur de la Mission de l'AID ou son (sa) mandataire jugera appropriée. L'AID déboursera lesdits fonds conformément aux procédures et méthodes normales de déboursement de l'USAID.

5. ENTREE EN VIGUEUR ET DENONCIATION DE L'ACCORD

L'Accord restera en vigueur jusqu'à ce qu'il soit dénoncé par un accord mutuel écrit de l'AID et du Gouvernement du Sénégal ou que prenne fin le programme d'assistance des Etats-Unis au Sénégal, au premier échu de ces termes. La dénonciation de l'Accord mettra fin aux obligations des parties aux présentes, sauf en ce qui concerne les obligations de déboursement consécutives aux engagements non annulés conclus avec des tierces parties avant la dénonciation de cet Accord et sous réserve des procédures figurant à la Section 10.

6. **DOCUMENTS ET INSPECTIONS**

L'AID conservera les documents relatifs à tous les déboursements effectués au niveau du compte.

7. **PROPRIETE DES BIENS**

L'AID tiendra des documents sur les biens non-consomptibles utilisés directement par l'AID et achetés avec des fonds fournis dans le cadre du présent Accord. Ces documents pourront être inspectés par des représentants du Gouvernement du Sénégal à tout moment raisonnable. Tous les biens non consomptibles ainsi achetés seront transférés au Gouvernement du Sénégal lorsqu'ils ne seront plus requis pour le soutien des programmes d'assistance des Etats-Unis au Sénégal. Le produit de la vente de ces biens non-consomptibles au cours de la période couverte par cet Accord sera déposé dans le compte.

8. **RAPPORTS**

L'AID préparera et fournira au Gouvernement du Sénégal un rapport annuel indiquant le montant et la date des dépôts dans le compte au cours de la période considérée, les dépenses effectuées à partir du Fonds et le solde restant dans le compte à la fin de ladite période.

9. **CONSULTATIONS ET AMENDEMENTS**

L'AID et le Gouvernement du Sénégal coopéreront pour veiller à ce que les buts de l'Accord soient réalisés et échangeront, à la demande de l'une ou l'autre des parties, leurs points de vue sur l'Accord et sur les activités financées dans le cadre de l'Accord. L'Accord peut être amendé par toute forme d'accord écrit entre l'AID et le Gouvernement du Sénégal.

10. **DISPONIBILITE DES FONDS**

Les fonds mis à disposition dans le cadre de l'Accord resteront disponibles jusqu'à ce qu'ils soient dépensés. En cas de dénonciation de l'Accord conformément à la Section 5, les fonds qui n'ont pas été engagés conformément aux engagements non annulables conclus avec des tierces parties avant la dénonciation seront déboursés du compte au bénéfice de buts qui seront convenus mutuellement par l'AID et le Gouvernement du Sénégal.

11. **COMMUNICATIONS**

Tout avis, demande, document ou autre communication officielle soumis par le Gouvernement du Sénégal ou l'AID à l'autre partie dans le cadre du présent Accord, se fera par écrit. Les avis ne seront jugés valides que s'ils sont délivrés à l'AID ou au Gouvernement du Sénégal aux adresses suivantes.

GOUVERNEMENT DU SENEGAL

AID
Directeur USAID
s/c Ambassade Des Etats-Unis
B.P. 49
Dakar, Senegal.

D'autres adresses pourront être substituées à celles-là après notification écrite.

12. **REPRESENTANTS**

Aux fins du présent accord, le Gouvernement du Sénégal sera représenté par le Ministre de_____________________ou son intérimaire et l'AID par le Directeur de l'USAID ou son intérimaire, chacun d'eux pourra, par écrit, désigner d'autres représentants pour toutes activités liées au présent Accord à l'exception de l'Amendement de l'Accord. Chacune des parties communiquera à l'autre les noms de ses représentants ainsi que le duplicata de specimens de leurs signatures. L'AID et le Gouvernement du Sénégal accepteront comme dûment autorisé tout document signé par ces représentants dans le cadre de l'exécution du présent accord jusqu'à la réception d'une notification écrite de révocation des pouvoirs de ce représentant.

En foi de quoi, le Gouvernement du Sénégal et les Etats-Unis d'Amérique chacun agissant par l'intermédiaire de son représentant dûment autorisé ont signé et remis cet accord en leur nom à la date susmentionnée.

Par:________________________	Par:________________________
Titre:______________________	Titre:______________________
Date:_______________________	Date:_______________________

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ANNEX D

INITIAL ENVIRONMENT EXAMINATION

INITIAL ENVIRONMENTAL EXAMINATION

Country:	Republic of Senegal
Project Title:	Senegal: African Economic Policy Reform Program (AEPRP-II); Banking Sector Reform (685-0292/0299)
Funding:	Life of Project Funding: $35 million
Period of Project:	FY 1990-91
Activity Description:	The purpose of the proposed three-year, 35 million dollar AEPRP-II for Senegal (685-0292/0299) is to provide critical financial and technical support to the Government of Senegal to assist with the implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector. The program will also provide funding for associated technical assistance measures, including: (1) consultancies for accelerated recovery of bad debt, for improved bank management, and for bank privatization; (2) studies of monetary and financial policies; and (3) program implementation, monitoring and evaluation.
Environmental Action Recommended:	Categorical Exclusion in accordance with Reg. 16, Section 216.2 (c) (1) (i): The action does not have an effect on the natural or physical environment, and Section 216.2(c)(2)(vi): Cash Transfer to a National Government. The technical assistance and studies are excluded from the environmental procedures pursuant to Sections 216.2(c)(2)(i) and 216.2(c)(2)(iii) respectively.
IEE prepared by:	Gilbert Haycock, Chief, Irrigation, Water Management, and Engineering Office.

Bureau Environmental Officer's Determination: Authority delegated to USAID/Senegal Mission Director per STATE 60732, 25 February 1989.

APPROVED:

Date:

USAID/Senegal: ______________________
Mission Director

Clearance: GC/RLA:EDragon EAD

6529P

ANNEX E

PAIP APPROVAL CABLE

ACTION: AID NFO: AMB DCM RIG ECON

VZCZCDK0573
RR RUEHDK
DE RUEHC #3503/01 1021043
ZNR UUUUU ZZH
R 121040Z APR 89
FM SECSTATE WASHDC
TO AMEMBASSY DAKAR 6058
BT
UNCLAS SECTION 01 OF 05 STATE 113503

RECEIVED
APR 12 1989

LOC: 272-273
12 APR 89 1044
CN: 13588
CHRG: AID
DIST: AID

C & R CHRON FILE

4/18

AIDAC

E.O. 12356: N/A

SUBJECT: SENEGAL AEPRP II BANKING SECTOR REFORM PAIP

1. SUBJECT PAIP WAS REVIEWED BY THE EXECUTIVE COMMITTEE FOR PROJECT REVIEW (ECPR(DURING THREE MEETINGS HELD ON MARCH 16, 20 AND 24, CHAIRED BY DAA/AFR LARRY SAIERS, AND ATTENDED BY REPRESENTATIVES FROM AFR/PD, AFR/DP, AFR/SWA, AFR/MDI, STATE/AF, PRE/I, GC/AFR, AFR/TR, PRE/PD AND USAID/SENEGAL. THE MISSION'S REPRESENTATIVE, RICHARD GREENE, WAS VERY HELPFUL IN EXPLAINING SENEGAL'S BANKING SECTOR DIFFICULTIES AND RESPONDING THOUGHTFULLY TO THE VARIOUS ISSUES AND CONCERNS RAISED AT THE REVIEW MEETINGS. THE PAIP IS APPROVED SUBJECT TO THE GUIDANCE OUTLINED BELOW.

2. ISSUE: DONOR COORDINATION AND BANKING SECTOR REFORM.

(A) NATURE OF THE ISSUE: THE PAIP INDICATES THAT THE SENEGALESE BANKING SECTOR IS IN DEEP TROUBLE, WITH SEVERAL OF THE COUNTRY'S LARGEST BANKS STAGGERING UNDER BAD AND DOUBTFUL DEBTS EXCEEDING DOLS 288 MILLION, NOT INCLUDING AN ADDITIONAL DOLS 255 MILLION OF DEBT FROM THE FORMER RURAL DEVELOPMENT PARASTATAL, ONCAD, NOR OUTSTANDING CROP CREDIT AND GUARANTEED GOVERNMENT DEBT TOTALING DOLS 252 MILLION. THE PAIP FURTHER EXPLAINS THAT THE GOS IS NEGOTIATING A BANKING SECTOR REHABILITATION PACKAGE INVOLVING INSTITUTIONAL REFORM BY THE BANKS, AND FINANCIAL CONTRIBUTIONS BY BANK SHAREHOLDERS, BY THE BCEAO, BY FRANCE AND BY OTHER DONORS. THE PAIP STATES THAT SOME AGREEMENT HAS BEEN REACHED BETWEEN A.I.D. AND THE WORLD BANK ON A NUMBER OF ELEMENTS FOR REFORM, INCLUDING IMPROVED BANK SUPERVISION AND INSPECTION, PRIVATIZATION, LIMITS ON CREDIT TO THE PUBLIC SECTOR, LIMITS ON THE USE OF STATE GUARANTEES FOR BORROWING BY PUBLIC OR PRIVATE ENTERPRISES, LIBERALIZATION OF THE SYSTEM OF CREDIT ALLOCATION, AND REDUCED TAXATION OF SAVINGS. THE PAIP THEN PROCEEDS TO ARGUE THAT EACH DONOR - FRANCE, A.I.D., THE WORLD BANK, AND THE IMF - CAN EXERCISE ITS OWN CONDITIONALITY TO ACHIEVE AN EFFECTIVE RESTRUCTURING OF THE SYSTEM AND THE RECOVERY OF BAD LOANS.

WHILE GENERAL SATISFACTION WAS EXPRESSED WITH THE

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VARIOUS REFO... OBJECTIVES INDICATED IN THE PAIP, SKEPTICISM WAS VOICED REGARDING THE FEASIBILITY OF ACHIEVING SUCH OBJECTIVES WITH EACH DONOR OPERATING INDEPENDENTLY. IN CONSIDERATION OF (1) THE WIDE GAMUT OF POLICY, INSTITUTIONAL, LEGAL AND FUNDING ISSUES, INVOLVING SENEGAL AND, IN SOME INSTANCES, WAMU; (2) THE TOUGH POLITICAL CHOICES FACING SENEGALESE OFFICIALS AS THEY PURSUE REFORMS IMPACTING ADVERSELY ON HERETOFORE FAVORED GROUPS OR SECTORS; (3) THE MANAGEMENT BURDEN ON BOTH THE MISSION AND GOS (DEALING WITH INDIVIDUAL DONOR CONDITIONALITY AND PROCEDURES); AND (4) THE NEED FOR MAXIMIZING LEVERAGE TO ENHANCE PROSPECTS FOR MEANINGFUL REFORM, THE ECPR FELT CLOSER DONOR COORDINATION WAS ESSENTIAL.

(B) RESOLUTION OF THE ISSUE: GIVEN THE PERCEIVED IMPERATIVE FOR TIGHT DONOR COLLABORATION, IN ORDER TO ACHIEVE THE COMPREHENSIVE REFORM OBJECTIVES IDENTIFIED IN THE PAIP, THE ECPR CONCLUDED THAT A.I.D. AND THE IBRD SHOULD SEEK TO DEVELOP JOINTLY A COMMON DESIGN DOCUMENT, INCLUDING ANALYSES, REFORM AGENDA AND OTHER IMPLEMENTATION DETAILS. IT WAS RECOGNIZED, HOWEVER, THAT CERTAIN ADJUSTMENTS, REVISIONS OR ADDITIONAL ANALYSES MAY BE REQUIRED TO BRING THE DOCUMENT INTO COMPLIANCE WITH AFR GUIDANCE ON NON-PROJECT ASSISTANCE WHERE DFA FUNDS ARE THE SOURCE OF THE PROPOSED ASSISTANCE. TO THE EXTENT POSSIBLE, THE FRENCH PROGRAM SHOULD BE INCLUDED AS WELL, OR AT LEAST DESCRIBED IN SUFFICIENT DETAIL TO UNDERSTAND ITS COMPLEMENTARITY WITH THE A.I.D./IBRD PROGRAM. THE OBJECTIVE IS TO ENSURE THAT THE MULTI-DONOR PROGRAM DESIGN PACKAGE IS SUFFICIENT IN TERMS OF SCOPE AND RESOURCES TO ACHIEVE THE DESIRED REFORMS AS QUICKLY AS POSSIBLE AND AVOID THE MISALLOCATION OF THESE OR OTHER FUNDS CHANNELED THROUGH THE BANKING SYSTEM. IN DESIGNING THIS PROGRAM IT WILL LIKELY BE NECESSARY TO WORK WITH OTHER ENTITIES AS WELL, SUCH AS THE BCEAO IN DEFINING AND IMPLEMENTING AN IMPROVED SUPERVISION AND CONTROL SYSTEM, OR THE IMF IN CONNECTION WITH THE PROGRAM'S IMPACTS ON MONEY SUPPLY OR THE GOS BUDGET. THE QUESTION OF JOINT VS. PARALLEL CO-FINANCING WITH THE BANK IS LEFT OPEN FOR MISSION CONSIDERATION DURING THE FINAL DESIGN STAGE. IN ADDITION TO COLLABORATIVE EFFORTS IN PLANNING THE REFORM PROGRAM, THE PAAD SHOULD INCLUDE A DESCRIPTION OF DONOR COORDINATION OVER THE PROGRAM'S IMPLEMENTATION PERIOD.

3. ISSUE: CONDITIONALITY.

(A) NATURE OF THE ISSUE: THE CONDITIONALITY OUTLINED

IN THE PAIP IS REGARDED AS INSUFFICIENT TO ACHIEVE DESIRED REFORMS. ALTHOUGH DISBURSEMENT IS TO BE SPREAD OUT OVER SIX TRANCHES, MOST OF THE CONDITIONS FOR RELEASE OF THE EARLY TRANCHES ARE STUDIES, PROPOSALS FOR STUDIES, OR CONTRACTUAL ARRANGEMENTS FOR TECHNICAL ASSISTANCE. ESTABLISHING ACTUAL REFORM CONDITIONALITY, AGREEMENT AND IMPLEMENTATION IS NOT SCHEDULED UNTIL THE LATTER TRANCHES. HOW DO WE KNOW WHETHER ANOTHER TWO YEARS OF STUDY WILL YIELD THE DESIRED INSIGHTS INTO THE BANKING CRISIS, MUCH LESS WHETHER SENEGAL WILL IMPLEMENT THEM? (FOR EXAMPLE, THE PAIP IDENTIFIES SECTORAL AND BANK-BY-BANK CREDIT ALLOCATION AS ONE OF THE PRIMARY VILLAINS IN THE DEVELOPMENT OF THE CRISIS, YET ALL IT PROPOSES FOR ADDRESSING THE PROBLEM IS A STUDY, THE RESULTS OF WHICH DON'T GET IMPLEMENTED UNTIL YEAR THREE OF THE PROGRAM.)

IN ADDITION TO THE INHERENT WEAKNESS OF STRUCTURING CONDITIONALITY IN SUCH A WAY AS TO POTENTIALLY FORFEIT MUCH OF THE PROGRAM'S LEVERAGE FOR MEANINGFUL REFORMS, IT IS NOT IN CONFORMITY WITH CURRENT GUIDELINES ON DFA SECTOR GRANTS. THAT GUIDANCE CALLS FOR ANALYSIS LEADING BOTH TO CONSTRAINTS IDENTIFICATION AS WELL AS TO A CLEAR REFORM AGENDA TO ADDRESS SUCH CONSTRAINTS, ALL ESTABLISHED DURING PROGRAM DESIGN. LACKING SUCH A DESIGN/IMPLEMENTATION STRATEGY CALLS INTO QUESTION THE VERY NATURE OF THE PROPOSED PROGRAM.

CLOSELY RELATED TO THE ABOVE CONCERNS ON CONDITIONALITY IS THE FEAR THAT LOCAL CURRENCY DISBURSED UNDER THE PROGRAM TO REPAY GOVERNMENT DEBT TO THE BANKING SECTOR COULD BE CHANNELED TO UNHEALTHY BANKS AND/OR UNPROFITABLE SECTORS AND LOST BEFORE MEANINGFUL REFORMS ARE INTRODUCED AND ADOPTED.

(B) RESOLUTION OF THE ISSUE: PAAD SHOULD INCLUDE ANALYSES OF THE BANKING SECTOR SUFFICIENT BOTH TO IDENTIFY THE PRINCIPAL CONSTRAINTS UNDERMINING ITS PROPER FUNCTIONING AND SUBSEQUENTLY TO SPECIFY AS CONDITIONALITY THE REMEDIAL ACTIONS REQUIRED, BY WHOM AND WITHIN WHAT TIME FRAME, TO FULLY ADDRESS THESE CONSTRAINTS.

A FUNDAMENTAL OBJECTIVE IS TO SECURE GOS AGREEMENT ON THE BASIC REFORM OBJECTIVES AND THE SPECIFIC STEPS FOR THEIR ACHIEVEMENT. THE MISSION AND BANK SHOULD JOINTLY WORK OUT THE REQUIRED CONDITIONALITY AND ITS SEQUENCING. IT IS ESSENTIAL THAT THE PROGRAM BE STRUCTURED TO ENSURE THAT LOCAL CURRENCY AVAILABLE UNDER THE PROGRAM NOT BE CHANNELED TO UNHEALTHY BANKS OR UNPROFITABLE SECTORS BEFORE APPROPRIATE REFORMS ARE ADOPTED.

4. ISSUE: BENEFICIARIES OF BANKING REFORM.

(A) NATURE OF THE ISSUE: IT IS NOT CLEAR THAT BANKING SECTOR REFORM WILL LEAD TO GREATER AVAILABILITY OF BANK

CREDIT TO [illegible]PORTANT SECTORS TYPICALLY [illegible] A.I.D., SUCH AS AGRICULTURE OR SMALL AND MEDIUM SCALE ENTERPRISES. THE USE OF DFA FUNDS WOULD REQUIRE ESTABLISHING THIS LINKAGE TO THESE OR OTHER BENEFICIARIES AT THE LOWER END OF THE INCOME SCALE. SENEGALESE BANKS HAVE LOST MUCH MONEY IN AGRICULTURE, GENERALLY LACK EXPERTISE IN THIS AND OTHER SPECIALIZED NON-COMMERCIAL SECTORS, AND ARE ADVERSE TO TAKING THE HIGHER RISKS ASSOCIATED WITH LONGER TERM DEVELOPMENT LOANS. WHY DOES THE MISSION BELIEVE THAT BENEFICIARIES OF THE REFORM PROGRAM WILL BE BROADENED BEYOND THE CURRENT BANKING SECTOR'S CLIENTELE, SHAREHOLDERS AND EMPLOYEES? ALSO, ARE THERE GROUPS THAT COULD BE NEGATIVELY AFFECTED BY THE PROGRAM UNLESS THE GOS FINDS BUDGETARY (RATHER THAN BANKING SECTOR) RESOURCES TO FINANCE CURRENT SUBSIDIES?

(B) RESOLUTION OF THE ISSUE: THE PAAD SHOULD IDENTIFY THOSE GROUPS THAT WILL BE AFFECTED BY THE PROGRAM AND, AS NECESSARY, ADJUSTMENT MECHANISMS THAT WILL COME INTO PLAY TO NEUTRALIZE OR MINIMIZE ADVERSE IMPACTS ON VULNERABLE GROUPS. THE ANALYSIS MUST DEMONSTRATE PLAUSIBLE RELATIONSHIPS BETWEEN IMPROVEMENTS IN THE BANKING SECTOR AND CONSEQUENT IMPACT ON INVESTMENT AND RELATED EMPLOYMENT GENERATION. IT IS RECOGNIZED THAT A DEGREE OF STABILIZATION MUST BE ACHIEVED IN THE NEAR TERM, BUT THE LINKAGE BETWEEN A REFORMED SENEGALESE BANKING SECTOR AND A.I.D. TARGET BENEFICIARIES MUST BE DEMONSTRATED. THE ANALYSIS SHOULD NOT BE DRAWN IN THEORETICAL TERMS BUT, RATHER, IN TERMS OF WHAT CAN REASONABLY BE EXPECTED TO OCCUR IN SENEGAL FOLLOWING IMPLEMENTATION OF REFORMS IN THE BANKING SECTOR.

A MONITORING SYSTEM SHOULD ALSO BE BUILT INTO THE PROGRAM AND APPROPRIATELY INSTITUTIONALIZED TO GATHER EMPIRICAL DATA OVER TIME REGARDING CREDIT RECIPIENTS, JOBS CREATED AND SIMILAR MEASURES TO UNDERSTAND WHICH

GROUPS AND SECTORS OF THE ECONOMY BENEFITTED FROM THE BANKING SECTOR REFORMS. THE MONITORING SYSTEM SHOULD ALSO INCLUDE SUCH VULNERABLE GROUPS WHICH MAY BE ADVERSELY AFFECTED BY THE SECTOR REFORM PROGRAM. MOREOVER, FOR ALL GROUPS AFFECTED BY THE REFORM PROGRAM, THE DATA SHOULD BE COLLECTED, TO THE EXTENT POSSIBLE, ON A GENDER DISAGGREGATED BASIS.

5. ISSUE: MAGNITUDE OF BANKING SECTOR DEBT AND ADEQUACY OF RESOURCES TO ADDRESS IT.

(A) NATURE OF THE ISSUE: THERE IS A CONSIDERABLE AMOUNT OF INDEBTEDNESS IMPACTING ADVERSELY ON THE ENTIRE BANKING SYSTEM AND THREATENING TO UNDERMINE THE FINANCIAL SECTOR'S STABILITY AND THE COUNTRY'S GROWTH. WHILE ONCAD DEBT HAS BEEN REFINANCED, IT REMAINS UNCLEAR THAT THE GOS CAN MEET THE CURRENT PAYMENT SCHEDULE. THE SAME UNCERTAINTY SURROUNDS GOS EFFORTS TO REPAY CROP CREDIT ON AN ANNUAL BASIS. MEANWHILE, THE GOS IS SEEKING DOLS 185 MILLION FROM THE BCEAO AND AN ADDITIONAL DOLS 100 MILLION FROM THE BANK, FRANCE AND A.I.D. TO MEET ADDITIONAL INDEBTEDNESS WITHIN THE BANKING SYSTEM. CONSIDERABLE PRIVATE DEBT REMAINS OUTSTANDING AND OVERDUE, EVEN AMONG SOLVENT DEBTORS.

DO WE REALLY KNOW THE MAGNITUDE OF THE INDEBTEDNESS WITHIN THE BANKING SECTOR; HOW MUCH IS GOS DEBT; AND WHETHER THE CONTEMPLATED ASSISTANCE IS ADEQUATE TO ADDRESS THE PROBLEM? CAN AND WILL PRESSURE BE BROUGHT TO BEAR ON SOLVENT DEBTORS TO REPAY? THE MISSION REPRESENTATIVE HAS INDICATED THAT DEBT ANALYSES ARE UNDERWAY AND HARDER NUMBERS WILL BE FORTHCOMING OVER THE COMING MONTHS.

(B) RESOLUTION OF THE ISSUE: A DETAILED DEBT ANALYSIS AND RECOVERY PLAN SHOULD BE ESTABLISHED AS A CONDITION PRECEDENT TO PROGRAM AUTHORIZATION OR, AT A MINIMUM, TO DISBURSEMENT UNDER THE FIRST TRANCHE.

6. ISSUE: IMPROVED INSPECTION AND SUPERVISION OF BANKS.

(A) NATURE OF THE ISSUE: ACCORDING TO THE PAIP, THE EX-DEPUTY DIRECTOR OF THE FDIC RESEARCHED THE FEASIBILITY OF DEPOSIT INSURANCE IN SENEGAL. AS A BASIC PREREQUISITE TO ANY POSSIBLE INTRODUCTION OF DEPOSIT INSURANCE, HE CONCLUDED, "... THERE IS AN URGENT NEED TO ESTABLISH WITHIN SENEGAL A STRONG AND INDEPENDENT BANK SUPERVISORY AGENCY..." YET THE MISSION SEEMS PREPARED TO STRENGTHEN SENEGAL'S MINISTRY OF ECONOMY AND FINANCE TO CARRY OUT THE DESIRED BANK INSPECTION AND SUPERVISION, ARGUING THAT THIS IS THE ONLY ENTITY WITH SUFFICIENT ENFORCEMENT CAPABILITIES TO ENSURE THAT CORRECTIVE MEASURES ARE TAKEN AS REQUIRED. IN LIGHT OF THE HEAVY-HANDED GOS INTRUSION INTO THE BANKING SECTOR'S CREDIT ALLOCATION PROCESS, AND THE MISSION'S STATED DESIRE TO MINIMIZE THE GOVERNMENT'S INVOLVEMENT IN THE SECTOR, WHY NOT STRENGTHEN THE BCEAO TO CARRY OUT THIS

TASK IN SENEGAL, AND PERHAPS FOR THE [illegible] THE BCEAO AS A REGIONAL ENTITY WOULD BE LESS VULNERABLE TO PRESSURE GROUPS WITHIN SENEGAL AND THEREFORE MORE INCLINED TO ENFORCE CORRECTIVE MEASURES TO ASSURE SOUND BANKING PRACTICES ARE ADHERED TO.

(B) RESOLUTION OF THE ISSUE: THE ECPR CONCLUDED THAT THE OBJECTIVE OF THIS REFORM ELEMENT SHOULD BE TO MOVE AS QUICKLY AS POSSIBLE TO AN INDEPENDENT BANK SUPERVISORY SYSTEM WITH THE ABILITY TO EMPLOY EFFECTIVE SANCTIONS FOR NON-COMPLIANCE WITH ESTABLISHED STANDARDS.

7. CONCERN: PRIVATIZATION.

THE PAIP PLACES HEAVY EMPHASIS ON THE NEED FOR REDUCING, IF NOT ELIMINATING, GOVERNMENT'S DIRECT INVOLVEMENT IN THE BANKING SECTOR, AND CALLS FOR THE PRIVATIZATION OF TWO BANKS. THE FOLLOWING CONCERNS ARISE FROM THIS ELEMENT OF THE PROGRAM:

(A) REPLACING GOS WITH FRENCH INFLUENCE: BY EMPHASIZING A REDUCTION IN GOS OWNERSHIP AND INFLUENCE IN THE ALLOCATION OF BANKING RESOURCES, THE DATA PRESENTED IN THE PAIP SUGGEST THAT FRENCH INTERESTS MIGHT COME TO DOMINATE THE BANKING SECTOR. THIS, IN TURN, RAISES SERIOUS QUESTIONS AS TO WHETHER, IN FACT, THE SENEGALESE PEOPLE WOULD BE THE PRINCIPAL BENEFICIARIES OF THE REFORM OR, RATHER, FRENCH COMMERCIAL AND OTHER INTERESTS. IT IS IMPORTANT TO TRY TO ACHIEVE A DEGREE OF BALANCE IN BANK OWNERSHIP AMONG THE VARIOUS INTEREST GROUPS. THE SOCIAL SOUNDNESS OR OTHER PAAD ANALYSIS SHOULD CLOSELY EXAMINE THIS QUESTION IN THE CONTEXT OF THE BENEFICIARIES ISSUE DISCUSSED PREVIOUSLY.

(B) MANAGEMENT CONTRACT FOR ONE BANK: A LONG-TERM AND VERY COSTLY MANAGEMENT CONTRACT IS ENVISIONED TO "TURN-AROUND" ONE SMALL SPECIALIZED COMMERCIAL BANK TO

SERVE AS A DEMONSTRATION THAT A PRIVATE SENEGALESE BANK CAN SUCCESSFULLY LEND TO SMALL AND MEDIUM SCALE ENTERPRISES. WOULD IT NOT BE PREFERABLE FOR THIS MANAGEMENT CONTRACT TO ADDRESS MANAGEMENT ISSUES CONFRONTING SEVERAL IF NOT ALL OF THE TROUBLED BANKS? THE LINK BETWEEN MANAGEMENT IMPROVEMENTS IN THE SECTOR AND TA FOR ONE BANK HAS NOT BEEN MADE SUFFICIENTLY CLEAR TO THE ECPR. ALSO, GREAT CONCERN WAS EXPRESSED OVER MANAGEMENT BURDEN ON USAID OF TA CONTRACT FOR ONE BANK. ALTERNATIVELY, IF INDIVIDUAL RESTRUCTURING AND MANAGEMENT CONTRACTS ARE DEEMED MOST FEASIBLE, WILL ALL OF THE TROUBLED BANKS BE ADDRESSED SIMULTANEOUSLY? THE ECPR CONCLUDED THAT MANAGEMENT CONTRACTS SHOULD BE IN PLACE FOR THE TROUBLED BANKS BEFORE FUNDS ARE DISBURSED. MOREOVER, FOR A.I.D.-FINANCED CONTRACTS, THE MISSION REPRESENTATIVE HAS INDICATED THESE WOULD BE DIRECT A.I.D. CONTRACTS, WITH AN APPROPRIATE DEGREE OF GOS COLLABORATION AND APPROVAL. WE SUPPORT THIS MODE OF CONTRACTING.

(C) DEBT-EQUITY SWAPS: THIS MECHANISM FOR ACHIEVING THE PRIVATIZATION OBJECTIVE VIS-AVIS TWO COMMERCIAL BANKS TENTATIVELY TARGETED FOR A.I.D. ASSISTANCE WAS DISCUSSED AT SOME LENGTH. A.I.D. MAY NOT ENGAGE DIRECTLY IN DEBT CONVERSIONS. THE MISSION MAY PROVIDE T.A. TO ASSIST THE GOS IN ESTABLISHING GUIDELINES FOR THE USE OF DEBT CONVERSIONS TIED TO PRIVATIZATION BUT SHOULD AVOID DIRECT INVOLVEMENT IN ACTUAL TRANSACTIONS. ON A MORE PRACTICAL LEVEL, THE TECHNICAL STAFF OF MDI ADVISE THAT EFFECTING THE DESIRED SWAP IS BY NO MEANS AN EASY TASK. MOREOVER, THE LEGAL STAFF ADVISES THAT A TRUST MECHANISM WOULD LIKELY HAVE TO BE ESTABLISHED TO ASSURE THAT A.I.D. DOES NOT OWN OR MANAGE THE SWAP INSTRUMENTS DIRECTLY. (SEE DEBT FOR DEVELOPMENT GUIDELINES, STATE 046571.) HOWEVER, IN EXAMINING THIS MECHANISM, PLEASE KEEP IN MIND GUIDANCE FROM PAGE 11 OF THE A.I.D. POLICY PAPER ON FINANCIAL MARKETS DEVELOPMENT WHICH STATES, "WHERE EXISTING PRIVATE FINANCIAL INSTITUTIONS ARE CAPABLE OF PERFORMING THE DESIRED ACTIVITY, THE ESTABLISHMENT OF A NEW TRUST OR TRUST FUND TO SERVE AS A FINANCIAL INTERMEDIARY FOR ON-LENDING OR EQUITY INVESTMENT SHOULD BE AVOIDED."

IF PRIVATIZATION REMAINS A CENTRAL OBJECTIVE OF THE REFORM PROCESS IN THE NEAR TERM, FOLLOWING DELIBERATIONS WITH THE WORLD BANK AND OTHER DONORS, THEN THE DEBT-EQUITY SWAP MECHANISM SHOULD BE FURTHER EXAMINED ON BOTH TECHNICAL AND LEGAL MERITS.

(D) IN DISCUSSING PRIVATIZATION SCHEMES WITH THE IBRD AND OTHER DONORS, THE MISSION SHOULD EXAMINE A BROAD RANGE OF PRIVATIZATION OPTIONS, NOT EXCLUSIVELY THOSE OUTLINED IN PARAGRAPHS 6(B) AND (C) ABOVE.

8. CONCERN: TRUST FUND FOR MISSION OPERATIONAL EXPENSES.

THE PAIP DOES NOT INDICATE THAT A TRUST FUND WOULD BE ESTABLISHED TO DEFRAY A PORTION OF MISSION OPERATING EXPENSES OVER THE PROGRAM'S IMPLEMENTATION PERIOD. THE ECPR CONCURRED WITH THIS DECISION GIVEN THE SIGNIFICANT REFORM DIMENSIONS OF THIS AEPRP EFFORT.

9. CONCERN: LEVEL OF FUNDING.

INITIALLY, THE LEVEL OF SUPPORT ENVISIONED FOR THIS PROGRAM WAS DOLS 15 MILLION. THE ECPR CONCLUDED THAT DOLS 15 MILLION WAS THE UPPER LIMIT FOR THIS PROGRAM IN AEPRP FUNDING. IF THE MISSION WOULD LIKE TO GO FURTHER AND INCREASE THE LOP FUNDING LEVEL EITHER TO DOLS 35 MILLION OR SOME OTHER LEVEL, MISSION NEEDS TO IDENTIFY SOURCES WITHIN MISSION'S BUDGET, EITHER ESF, DFA OR BOTH. THE ECPR RECOMMENDED THE USE OF ESF FUNDS CURRENTLY EARMARKED FOR ESF VII AND ESF VIII IN SUPPORT OF THIS AEPRP PROGRAM. THERE IS DEEP CONCERN IN MANY QUARTERS OF AID/W THAT THE MISSION'S PROGRAM IS EXPANDING TOO RAPIDLY, PARTICULARLY IN THE NPA AREA.

10. CONCERN: PROGRAM'S MANAGEMENT BURDEN ON USAID STAFF. CONCERN WAS EXPRESSED AT THE FINAL ECPR MEETING OVER THE PROGRAM'S POTENTIAL BURDEN ON MISSION STAFF, PARTICULARLY THE PROGRAM OFFICE WHICH WOULD BE CHARGED WITH DIRECT IMPLEMENTATION RESPONSIBILITY, IN ADDITION TO OTHER NPA ACTIVITIES, INCLUDING THE PROPOSED AG SECTOR GRANT. MISSION SHOULD THEREFORE SEEK TO MINIMIZE THIS BURDEN BY ENLISTING MANAGEMENT SUPPORT, PREFERABLY UNDER THE TA PORTION OF THE PROPOSED PROGRAM.

11. INITIAL ENVIRONMENTAL EXAMINATION: MISSION IS REMINDED THAT PER STATE 60732, DATED FEBRUARY 25, 1989, THE BUREAU'S ENVIRONMENTAL OFFICER DELEGATED AUTHORITY TO THE MISSION DIRECTOR FOR APPROVING THE IEE FOR THIS PROGRAM.

12. VENUE FOR PAAD APPROVAL: THE PAAD WILL BE REVIEWED AND, IF APPROVED, AUTHORIZED IN AID/W. BAKER
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ANNEX F

STATUTORY CHECKLIST

SC(1) - COUNTRY CHECKLIST SENEGAL FY 1989

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

At the time of the preparation of this checklist, the GC/LP had not issued the FY 1990 checklist. There are no specific prohibitions/restrictions on Senegal in the FY 1990 Appropriations Act, and the Agency is thus proceding with this FY 1989 checklist.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are

   N/A

laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. <u>1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404</u>. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the — N/A

government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided No

either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? — a). No b). No

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of — Yes. Taken into account by the Administrator at the time of approval of Agency OYB for FY 198 Significant changes are not anticipated.

Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the ~~fiscal~~ year unless significant changes in circumstances occur.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — No

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) — In arrears. Yes

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? — No

15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? — No

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

No

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Yes. Senegal "reserved orally." Such has been taken into account.

21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No

22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? No

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? Yes

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? — Yes.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   Congress was advised of the AEPRP-II Program Grant through submission of a standard Congressional Notification

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   N.A.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   Financing requirements of the AEPRP-II are Senegal-specific. However, the Senegal program may serve as a model for programs in other countries of the region, and is accelerating policy reforms by the regional central bank (BCEAO).

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Program assistance for policy reforms associated with the AEPRP-II will increase the solvency, liquidity, competitiveness, and outreach of the banking system, facilitating provision of credit to industry, agriculture, and commerce, including international trade.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	U.S. short-term assistance will be provided under the project,
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N.A.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes, for technical assistance.
9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	Yes.
10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?	N.A.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund — N.A (DFA-funded)

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. governnent as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries? N.A.

b. <u>FAA Secs. 103, 103A, 104, 105, 106, 120-21</u>. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source): N.A.

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution. N.A.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. N.A.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N.A.

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is: N.A.

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N.A.

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

AEPRP-II is the U.S. contribution to a GOS program of banking restructuring and reform supported by multiple donors who are cooperating closely in design and implementation with one another, and with the regional central bank (BCEAO).

Yes.

c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?	Yes
d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	N.A.
e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	AEPRP-II is designed to help implement the GOS Policy Declaration on Banking Sector Reform, and seeks to maximize the participation of individual Senegalese in the institutional development of the banking sector as shareholders, managers, depositors and borrowers.
f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	CN has been sent to Congress.
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes.
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	No legislative action is required. Conditionality can be implemented by decree or other similar reform measures.

4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N.A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N.A.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No.

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Technical assistance for policy reforms associated with the AEPRP-II will increase the solvency, liquidity, competitiveness, and outreach of the banking system, facilitating provision of credit to industry agriculture, and international trade.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. short-term assistance will be provided under the project.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	GOS will contribute in kind to successful completion of technical assistance activities to be funded under AEPRP-II
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N.A.
12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No
13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other	N.A.

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?	No project funds will be made available directly to the GOS. The TA component will be managed by USAID.
15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	N.A.
16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?	N.A.
17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?	N.A.
18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	N.A.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N.A.

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

N.A.

institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? — Yes.

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — N.A.

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — N.A.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — N.A.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. — N.A.

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? — No

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization? — No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? — N.A.

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Gray Amendment organizations will be included in sollicitation of services.
l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible:	Yes.
(a) stress the importance of conserving and sustainably managing forest resources;	N.A.
(b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas;	N.A.
(c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management;	N.A.
(d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices;	N.A.
(e) help conserve forests which have not yet been degraded by helping to increase	

production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

N.A.

N.A.

N.A.

N.A.

N.A.

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity?

N.A.

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? — N.A.

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? — N.A.

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; — Yes.
(b) being provided in accordance with the policies contained in section 102 of the FAA; — Yes.

(c) being provided, when conistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa;	N.A.
(d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups;	Yes.
(e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?	N.A.

g. FY 1989 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N.A.

2. Development Assistance Project Criteria (Loans Only) N.A.

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

3. Economic Support Fund Project Criteria N.A.

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	N.A. (DFA-funded)
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N.A.

5. <u>FAA Sec. 604(g)</u>. Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	N.A.
6. <u>FAA Sec. 603</u>. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	N.A.
7. <u>FAA Sec. 621(a)</u>. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes. No.
8. <u>International Air Transportation Fair Competitive Practices Act, 1974</u>. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
9. <u>FY 1989 Appropriations Act Sec. 504</u>. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes.

10. FY 1989 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes.

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N.A.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N.A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? — N.A.

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N.A.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N.A.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

4. Will arrangements preclude use of financing: — Yes.

a. FAA Sec. 104(f); FY 1989 Appropriations Act Secs. 525, 536. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — Yes.

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes.

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes.

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

e. FAA Sec. 662. For CIA activities? — Yes.

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

g. FY 1989 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.

h. FY 1989 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? Yes.

i. FY 1989 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.

j. FY 1989 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes.

k. FY 1989 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

l. FY 1989 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? Yes.

5. FY 1989 Appropriations Act Sec. 584. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes.

ANNEX G

LOGICAL FRAMEWORK

PROGRAM DESIGN SUMMARY

LOGICAL FRAMEWORK

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0282/0299)

Life of Project:
From FY 1989 to FY1991
Total US Funding: $35 million
Date Prepared: 08/21/89

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
A. Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
-To promote a dynamic market economy by restoring financial stability and expanding the role of the private sector	-Growth rate of GDP -Balance of payments and budget deficits -Share of the private sector in GDP -Share of savings and investment in GDP -Share of private sector in national investment -Share of private sector in bank credit and bank deposits	-National Income Accounts, and IMF estimates -Balance of Payments Accounts, and IMF estimates -GOS Table of Financial Operations (TOF) -Central Bank reports	-Continued GOS performance under the IMF Extended Structural Adjustment Program (ESAF) -Continued refinement and implementation of related reforms under the New Agricultural Policy (NAP) and the New Industrial Policy (NIP) -Normal rainfall
B. Project purpose:	Conditions that will indicate purpose has been achieved. End of project status:		Assumptions for achieving purpose:
-To provide critical financial and technical support to the GOS to assist with implementation of policy, regulatory, and institutional changes necessary to address the underlying problems of the banking sector	-Improved solvency of the banking sector -Improved liquidity of the banking sector -Improved profitability of the banking sector -Increased ratio of deposits and sound credit to GDP -Increased sectoral diversification of the banking system (measured in terms of sound credit) -Increased term diversification of bank credit (measured in terms of sound credit)	-Central Bank reports -National Income Accounts	-Bank management responds positively to policy, regulatory, and institutional changes, and to the new competitive environment -Depositors respond to above changes with renewed confidence in the banking system -Borrowers respond with more creditworthy loan requests and improved repayment rate
C. Outputs:	Magnitude of outputs:		Assumptions for achieving outputs:
1. Improved Inspection and Supervision of Banks	-Interval between bank inspections reduced to 18 months or less -Creation of a regional Banking Control Commission with authority to impose sanctions	-Central Bank reports -Central Bank records	-Additional staff and related resources become available at BCEAO headquarters to expand the quantity and quality of bank inspection -MUEF requests inspections at least every 18 months -WAMU Council of Ministers approves creation of regional Banking Control Commission
2. Privatization, Restructuring, and Improved Management of Banks	-Number of banks with GOS majority ownership reduced from 4 to 0 -GOS ownership in each individual bank reduced to 25% or less -Overall GOS ownership in banking system reduced from 25% to less than 12% -Changed management and reduced staff in at least 7 banks	-Bank annual reports -BCEAO records -Operating license documents	-GOS is successful in finding a private sector partner for the new bank which is consolidating 4 former public banks -GOS refrains from intervening in the appointment and dismissal of bank management

6529P

PROGRAM DESIGN SUMMARY

LOGICAL FRAMEWORK

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0292/0299)

Life of Project:
From FY 1989 to FY1991
Total US Funding: $35 million
Date Prepared: 08/21/89

Narrative Summary	Objectively Verifiable Indicators	Means of verification	Important Assumptions
C. Outputs:	Magnitude of outputs:		Assumptions for achieving outputs:
3. Accelerated Recovery of Bad Debt	-Creation of a data bank to facilitate recovery of bad debt -Creation of a bad debt recovery structure -Creation of a panel of experts in the MOEF to analyze recovery of bad debt -Bad debt recoveries of: — CFAF 4.0 b. by Dec. 89 — CFAF 7.8 b. by June 90 — CFAF 12.6 by Dec. 90 — CFAF 16.6 by June 91 — CFAF 19.2 b. by Dec. 91	-Accounting firm records -Operating license -MOEF records -Reports of the committee of experts	-GOS refrains from intervening on behalf of prominent debtors
4. Increased Mobilization of Domestic Savings	-Double taxation of bank interest ended -Interest rate ceilings on deposits liberalized by BCEAO -BCEAO becomes a lender of last resort by raising its rediscount rate above the money market rate, and by more conservative rediscounting policy -Improved public confidence in banks	-GOS legislation -BCEAO circulars -BCEAO circulars, reports -Ratio of deposits to GDP (BCEAO records; national accounts)	-Stability in BCEAO top management
5. Improved Allocation of Credit	-GOS terminates provision of its guarantee for public and private loans except with approval of the legislature -GOS renounces practice of imposing participation of banks in publically endorsed financings -National Credit Committee abolishes its sectoral credit policy -National Credit Committee phases out its prior authorization requirement -GOS implements its Action Plan to increase credit to agr. and SMEs through legal and financial innovations, e.g. mutual or cooperative credit societies or banks -National Credit Committee and BCEAO phase out bank-by-bank credit ceilings and replace them with automatic mechanisms, e.g. fractional reserve requirements	-GOS directives -GOS directives -NCC directives -GOS legislation -NCC and BCEAO directives -BCEAO reports	-Continued political will -Study demonstrates practicability of controlling money supply through reserve ratios in WAMU context

PROGRAM DESIGN SUMMARY

LOGICAL FRAMEWORK

Program Title & Number: Senegal: AEPRP-II Banking Sector Reform (685-0282/0299)

Life of Project:
From FY 1989 to FY1991
Total US Funding: $35 million
Date Prepared: 08/21/89

Narrative Summary	Objectively Veritiable Indicators	Means of Verification	Important Assumptions
5. Improved Allocation of Credit (cont'd)	-BCEAO aligns the money market rate to international interest rates, and maintains its rediscount rate above the money market rate	-BCEAO directives	-Continued support of Council of Ministers of WAMU states for this measure
	-BCEAO eliminates the preferential discount rate, and widens legal margins on loans to agr., SMEs, and housing	-BCEAO directives	-Continued support of Council of Ministers of WAMU states for this measure
	-BCEAO includes non-performing loans guaranteed by Government in the overall government credit ceiling -BCEAO includes crop credit in the overall national credit ceiling	-BCEAO directives -BCEAO reports	-Continued support of Council of Ministers of WAMU states for this measure
D. Inputs	Implementation target (type and quantity)		Assumptions for providing inputs:
-$30 million in program grants to accelerate repayment of GOS liabilities to the banking sector	-Program grants: --$12 million - Dec. 1989 -- $5 million - June 1990 -- $5 million - Dec. 1990 -- $5 million - June 1991 -- $5 million - Dec. 1991	-USAID disbursement records -GOS disbursement records -Bank accounting records	-GOS meets conditionality -Allotments arrive from AID/W in timely fashion
-$3 million of technical assistance for accelerated recovery of bad debt; improved bank management; program implementation, monitoring and evaluation	- Technical assistance: --Bad debt recovery structure: . 1 Deputy Director x 2 p.y. . 1 Director of Administration x 2 p.y. --Restructured Bank: . 1 Deputy Director x 2 p.y. . 1 Director of Administration x 2 p.y. . 1 Consultant to conduct search for external bank partner x 4 p.m. -Study on replacement of administrative bank-by-bank credit ceilings -Project Implementation, Monitoring and Evaluation: . 1 Senior Financial Advisor x 2 p.y. . 2 Microcomputers, software and supplies . 1 Microcomputer Programmer and Trainer x 6 p.m. . 2 Consultants, End of Project Evaluation x 2 p.m.	-USAID contract records	

ANNEX H

REQUEST FOR ASSISTANCE

ABS/db

REPUBLIQUE DU SENEGAL
Un Peuple — Un But — Une Foi

MINISTERE DU PLAN
ET DE LA COOPERATION

N° 04907 /M.P.C.
DPFS/DPF/Bil.

Dakar, le 28 AOUT 1989

Le Ministre

TRES URGENT

O B J E T : Demande d'assistance budgétaire dans le cadre du Programme de Réformes de Politiques économiques en Afrique (AEPRP - II) N° 685-0292/685-0299.

Madame le Directeur,

Je vous confirme par la présente que le Gouvernement du Sénégal souhaite bénéficier du Programme de Réformes de Politiques économique en Afrique (AEPRP-II) constitué par (1) une assistance budgétaire de 32.000.000 de dollars américains, destinés à appuyer le programme de réhabilitation et d'assainissement du secteur bancaire sénégalais ; et (2) d'une subvention de 3.000.000 dollars pour financer les études et l'assistance technique nécessaire dans le cadre dudit programme.

Comme pour le précédent programme AEPRP et pour les autres programmes ESP, les négociations entre les deux parties se feront sous l'égide du Ministère de l'Economie et des Finances.

Je vous prie de croire, Madame le Directeur, à l'assurance de ma considération distinguée.

Madame le Directeur de l'USAID,
Immeuble BIAO, Place de l'Indépendance

DAKAR

du P...
Le Directeur ...
Mahmoudou Cheikh KANE

XD-AAY-834-A
69440

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

PROJECT AUTHORIZATION

Name of Country: SENEGAL

Name of Project: African Economic Policy Reform Program II

Number of Project: 685-0299

1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, and the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, I hereby authorize the African Economic Policy Reform Program II ("AEPRP II"), Support Component, for the Republic of Senegal ("Grantee"), involving planned obligations of not to exceed Three Million United States Dollars (US $3,000,000) in grant funds ("Grant") over a period of three years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years from the date of initial obligation.

2. The Project consists of technical assistance and financial support required for consultants, studies, monitoring and evaluation, and other costs in support of the AEPRP II program.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. <u>Source and Origin of Commodities, Nationality of Services</u>

Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have as their place of nationality countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or countries included in A.I.D. Geographic Code 935.

Walter Bollinger
Acting Assistant Administrator
Bureau for Africa

Date: 12/14/89

Clearances:

As shown on Action Memorandum

GC/AFR/PGJohnson/tim:647-9218:25Oct89:3109H

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)
Amendment Number:
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Senegal

3. PROJECT NUMBER: 685-0299

4. BUREAU/OFFICE: AFR 06

5. PROJECT TITLE (maximum 40 characters): AEPRP-II (Technical Assistance)

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 92

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	3,000		3,000	3,000		3,000
(Grant)	(3,000)	( )	(3,000)	(3,000)	( )	(3,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	3,000		3,000	3,000		3,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) DFA	910	930				3,000		3,000	
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To finance studies and technical assistance in support of AEPRP-II Program Grant Agreement 685-0292

14. SCHEDULED EVALUATIONS
Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [X] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of __ page PP Amendment.)

Concurrence USAID/Senegal Controller M. Gianni.
Monica Gianni

17. APPROVED BY
Signature: Sarah Jane Littlefield — Phyllis Dichter - for
Title: Mission Director
Date Signed: MM DD YY 1 16 91

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

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FY 1990-91 African Economic Policy Reform Program (AEPRP-II)
Technical Assistance

A. PROJECT DESCRIPTION

This Project consists of the Technical Assistance component of the FY 1990-91 African Economic Policy Reform Program Grant (AEPRP-II) by the U.S. Government to the Government of Senegal (GOS). The purpose is to help establish a viable banking system in Senegal characterized by adequate levels of solvency, liquidity, and profitability, by increased sectoral and term diversification, and by increased mobilization of domestic savings.

USAID/Senegal will manage the funds to be provided by A.I.D. under the Grant Agreement.

1. Technical Assistance

Three million dollars will be earmarked for the technical assistance, including: (1) two million dollars for consultancies concerning accelerated recovery of bad debt, improved bank management, and bank privatization; (2) one hundred fifty thousand dollars for studies of monetary and financial policies; and (3) seven hundred fifty thousand dollars for program implementation, monitoring, and evaluation.

2. Technical Assistance Budget

a. Senior Advisors for the Bad Debt Recovery Structure

(1) Deputy Director of the Recovery Structure - highly qualified financial professional with substantial previous experience at a senior level in debt recovery operations, including formulation of recovery objectives and procedures, management of recovery operations, and analysis of recovery results:

1 Senior Advisor x 2 person-years x $250,000/yr = $500,000

(2) Director of Administration and Finance - highly qualified financial professional with substantial previous experience at a senior level in debt recovery operations, including experience in budgeting, accounting systems, personnel management, communications, and general services administration:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

b. Senior Advisors for a "New Bank" that will consolidate the performing assets of four former public banks

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(1) Deputy Director of the New Bank - highly qualified banking professional with substantial previous experience in senior management position at a reputable commercial bank:

1 Senior Advisor x 2 person-years x $250,000/yr = $500,000

(2) Director of Administration of the New Bank - highly qualified banking professional with substantial previous experience in senior administrative position at a reputable commercial bank, including experience in budgeting and accounts management, data processing, personnel management, and general services administration:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

(3) Search for External Private Partner for New Bank:

Short-Term Consultants x 4 person-months x $25,000/mo = $100,000

c. Study leading to the abolition of bank by bank credit ceilings - Review of the existing system of control of the money supply; feasibility of alternative methods including introduction of reserve requirements; definition, composition, management, and compensation of required reserves; and complementary measures, including an improved interbank money market, and improved methods of allocating BCEAO rediscounts:

Short-Term Consultants x 6 person-months x $25,000/mo = $150,000

d. Project Implementation, Monitoring and Evaluation

(1) Senior Financial Advisor to USAID and MOEF who will provide continuing advice on project implementation and design modifications; provide first line supervision of USAID-financed technical assistance design; and implement the MOEF computerized project monitoring and evaluation system:

1 Senior Advisor x 2 person-years x $225,000/yr = $450,000

(2) Microcomputer Trainer and Programmer:

Short-Term Consultants x 6 person-months x $20,000/mo = $120,000

(3) Two microcomputers, IBM compatible, hard disk drive, color monitors, associated software and supplies:

2 PCs x $10,000 + $10,000 (software + supplies) = $30,000

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(4) External End of Project Evaluation:

Short-Term Consultant x 4 person-months x $25,000/mo = $100,000

e. Project Audit $50,000

f. Contingency at c. 3% = $100,000

Total Technical Assistance $3,000,000

B. PROJECT IMPLEMENTATION

1. Financial Contributions

a. USAID Financing: The amount of the A.I.D. grant provided, as specified in Block 8 of the project data sheet, is Three Million United States Dollars ($3,000,000).

b. Grantee Financing: The GOS will contribute to the Project by providing personnel, as available, to collaborate in activities defined in A.1 above.

2. Contracting

USAID will undertake all procurement in support of this Agreement and make direct payments for goods and services financed under the Grant.

3. Reporting

USAID will report quarterly to the Minister of Economy and Finance on activities carried out under this Program, in the framework of the meetings of the GOS-USAID Working Group on Policy Reform.

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