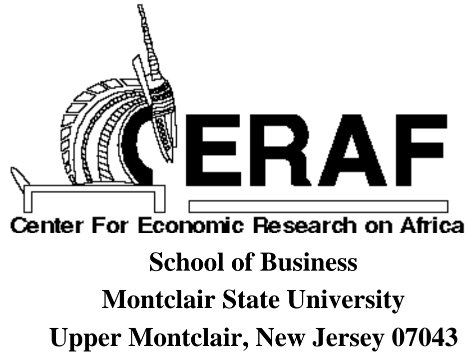

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A Retrospective Analysis of the Senegalese Economy

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Abstract

In this paper, we use an econometric model to review the historical evolution of the Senegalese economy. This review takes place in the context of historical imbalances in the external and public sectors, for which we provide some detailed analysis. As this review shows, Senegal has managed to absorb a number of economic shocks within deeply set constraints, particularly in the framework of structural adjustment programs.

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A. An overview of the Senegalese Economy

I.1 The Balance between Employment and Resources

According to figures at constant prices prepared in the context of the 6th Plan, and those which were readjusted and published in the reports of the Central Planning Division's economic perspectives, Senegal has never experienced strong economic growth. With an annual average annual growth rate of 2.56 percent, its actual gross domestic product has yet to double even after twenty years of political independence from France in 1960.

In the first decade of independence, while 5 percent annual growth rates were common among the world's major economies, Senegal's average annual growth rate only reached a maximum of 3 percent. It fell to just over -one percent during the 1970's. These were years in which Senegal and other countries were shaken by a series of international economic crises. These shocks included: the end of the Bretton Woods Gold Exchange Standard, the establishment of floating exchange rates in 1973, the two oil crises of 1973 and 1979, and the steep drop in raw material prices after 1975.

For Senegal in particular, the 1970's were further characterized by a series of devastating droughts: in 1971, 1973, 1977, 1978, and 1980. Finally, according to provisional data for the 1980's, Senegal has been experiencing a return to economic growth, which, if maintained at the 3.47 percent for the period between 1981-1987, should make the 1980's more productive than the two preceding decades.

The comparative division of Senegal's growth performance into ten year periods does not single out any period in Senegal's economic history. On the contrary, since independence from France in 1960, no matter which decade you consider, annual growth rates have been volatile, making a spread of 10 points possible between the maximum and minimum rates.

Since the end of the 1960's, lack of rain has been one of the principal explanatory factors in Senegal's economic instability.GDP falls every time that the drop of activity level in agriculture brings down the primary sector following a drought. This shows up in official statistics for the periods 1971, 1973, 1977, 1978, 1980, 1981, 1984.

The correlation between value added in agriculture and aggregate production does not, however, indicate either a macro-economic dominance of the primary sector or a lack of real dynamism in the secondary and tertiary sectors. First, in real terms the

primary sector's value added not only has never represented half of the GDP, but it has also always been exceeded by the value added of the tertiary sector. Secondly, the negative growth rates of the primary sector during periods of depression have always been lower than those of GDP. Finally, in the crisis years of 1971, 1977, 1978 and 1981, growth rates in the secondary and tertiary sectors were always positive.

As Senegal experienced these fluctuations, there appears to have been relatively little substitution between domestic and imported goods. Unlike Senegal's GDP, volume imports certainly grew in 1967, 1977, 1981, 1984. However, the long term elasticity of imports in relation to the GDP has never translated into a substitution of foreign goods for domestic production.

From 1960 to 1970, Senegal's average annual growth rate of 3.01 percent in GDP was compatible with a quasi-stagnation of imports. Imports fell at an annual rate of -0.27 percent from 1971 to 1980. The corresponding import elasticity of demand was on average equal to 1.64. Between 1981 and 1987, the import elasticity of demand dropped almost one point to 0.89. However, Senegal continued to demonstrate complementarity.[1] Between domestic production and imports over the period from 1960 to 1987. The long-run average in the import elasticity of demand thus remained positive at 1.32/2.56, or 0.51.

The strong correlation over the long term between agricultural value added and GDP and between GDP and imports valued at constant prices poses an interesting pattern in Senegal's economic performance. As long as agriculture, the GDP, and imports are positively correlated, there is statistical independence between the permanent deficits in Senegal's balance of payments (the deficit in the current account and the negative net foreign asset position) and the national demand for foreign goods and services.

During the 1970's, imports were not limited in order to stop the cumulative deterioration of Senegal's external position. However, stabilization programs begun in the 1980's did slow down the increase in the growth of imports, e.g, Senegal's 1982 GDP growth rate of 17.2 percent coincided with an 0.8 percent decrease in imports. Yet this slowdown did not transform the demand for foreign products into a control mechanism to reverse the deficit in the balance of payments. In effect, no import policy has ever had much effect on Senegal's economic rate of growth, or lack of it.

Unlike the parallel expansion in the components of aggregate supply, the components of aggregate demand have evolved in a highly uneven fashion. After decreasing on

average in the 1960's because of the abundance of exported peanut products (more than 50 percent of total exports) and the progressive substitution of crude and refined oil for exports of whole peanuts in the shell, from 1971 onwards the foreign demand for Senegalese goods followed fluctuations in the GDP, despite the growing significance of non-agricultural exports (e.g., fish products, phosphates, fertilizers, petroleum products). This also occurred despite the growth in the volume of international trade, which grew at average rates of 7.7 percent and 3.5 percent in the periods between 1967 to 1976 and 1977 to 1986.[2]

Unlike export fluctuations, which did not prevent economic depression during the drought years, private consumption at constant prices dropped only rarely (in 1969, 1972, 1973, 1980) in the period 1960 to 1987. Consumption in the long term grew at rates above those of other indicators of the nation's accounts, at 3.27 percent from 1960 to 1970, at 3.31 percent from 1971 to 1980, and at 3.38 percent from 1981 to 1987. Consumption expenditures were also less volatile, and thus helped to sustain the domestic market even when faced with external or climatic problems.

The autonomous dynamism of private consumption expenditures in Senegal provided two sets of consequences. On the one hand, it helped to sustain overall economic activity even in the face of adverse external trade or climatic problems. On the other hand, private consumption expenditures effectively eliminated household savings as a source of national savings, thus aggravating the level of external debt in the public sector. In the absence of domestic savings, this meant that public sector efforts to increase economic growth were accompanied by massive increases in foreign debt, especially during the 1970's with investment programs such as those for Senegal's national sugar company, CSS (la Compagnie Sendgalaise Sucriere), Dakar-marine, and ZFI.

Despite the increase in foreign debt, Senegal's already weak growth rates in GDP would have most likely been far worse had its program of expanding public expenditures not been undertaken. However, as Senegalese households inflated domestic demand and contributed to a negative aggregate savings rate, public consumption did not play a counterbalancing role, even after the onset of national stabilization programs in the 1980's. On the contrary, public consumption has grown constantly since 1972, and with no recurrent budget surplus, public savings were increasingly curtailed. The decline in public sector savings, when coupled with the drying up of household savings, meant that the only way that public sector investments could expand was through an increase in external public debt, and which would later become increasingly onerous, even with relatively generous foreign debt reschedulings.

The contribution of gross fixed capital investment to Senegal's GDP expansion has always been negligible over the long term. During the first ten years following independence from France, Senegal experienced two adverse changes in its international economic environment. One was the loss of the West African market as newly independent neighboring countries erected protectionist trade barriers. The other was the decline of French government services in Senegal in the post-independence period. Both of these shifts caused a collapse in profitability of an important fraction of the industrial production capacity which had been established after World War II.

In quantitative terms, Senegal's relative decline was clear and measureable. In real terms, gross fixed capital investment (FBCF) was less in 1970 than it was in 1960. Moreover, capital investment experienced on the average a zero percent annual growth rate during the 1960's. Although from 1974 onwards, the State and the public sector undertook ongoing funding in investment goods helped either by export revenues which were in rapid growth (1974, 1975, 1976) or by low interest rates on the international financial markets (the period between the petroleum crises), or by adjustment programs (after 1979), the results were largely disappointing.

Capital goods in Senegal have been largely imported. Despite efforts to sustain capital goods formation, prices for these goods rose at extraordinary rates during the 1970-1981 period, largely because of exceptional inflation rates in the source countries from which Senegal was importing these goods, viz., the OECD countries. Prices for these goods were also affected by frequent fluctuations in international exchange rates, even though Senegal's use of the CFA franc provided a nominal buffer. After a downward shift in the early 1970's, gross fixed capital investment at constant prices returned to its 1975 level in 1979. From 1980 onwards, gross fixed capital investment did begin to increase again, but only slightly because of the drop in public investments which occurred as the effects of a decline in domestic savings and the rise of external debt began to unfold. As a result, gross fixed capital investment expanded at an average annual rate of little more than 2 percent during the 1981 and 1987 period.

1.2 The Balance of Payments

Official statistics compiled from domestic sources and published by the International Monetary Fund for the 1968-1984 period show that, with the exception of 1972, Senegal has had a deficit in its balance of payments current account each year since independence from France in 1960. Before 1980, the chronic deficit in its current account resulted primarily from the deficit in its trade balance. The deficit in the trade balance has in each

instance been offset by positive net unilateral transfers. Although Senegal has been able to obtain these transfers, it should not be forgotten that they also reflect the rise in its external debt position. As a result, from the 1980's onwards, debt service payments began to cause an increase in the deficit of the balance of services, thus worsening the country's overall external position in the face of continuing low rates of economic growth.

1.2.1 The Trade Balance

Senegal's GDP and trade balance at current prices have generally fluctuated in opposite directions. With the exception of 1976, the current account trade balance in goods, which was always negative to begin with, decreased every time that overall aggregate activity contracted, and expanded during each year of recovery (1972, 1974, 1979, 1982). This regularity prevents us from holding the international environment responsible for Senegal's foreign position.

Senegal's inverse relation between GDP and its external trade balance has held true no matter what the international economic situation has been. It was the case during the period of weak inflation rates before 1973 in OECD countries. It was true during the double digit inflation period in OECD countries between 1973 and 1980. It was as true during the pre-1973 international trade boom as it was during the slowdown in international trade during the latter 1970's. It held as well in the face of the decline in the dollar between 1973 and 1980, as well as in the rise of the dollar during the first half of the 1980's. Similarly, it was true during the period of the rise of raw material prices between 1973 and 1980 as well as in the slump in raw material prices after 1980. In short, this inverse pattern suggests, if anything, that Senegal's trading imbalances lie more in domestic considerations than they do in international market fluctuations.

The ratio of foreign exchange reserves to expenditures on imports for Senegal has never exceeded unity. This has been the case firstly because Senegal's non-agricultural exports, notably, fish products, phosphates", and petroleum products, grew at slower rates than the growth in demand for manufactured goods. In addition, non-agricultural export growth was insufficient to compensate for the macro-economic effects of Senegal's persistent droughts, and which reduced the production and export of traditional agricultural commodities such as peanuts and peanut derivatives. To this should also be added the fact that relative inflation rates in Senegal's international trading partner zones were higher than in Senegal.[3]

The first factor cited above shows that from a global perspective, Senegal's non-traditional export specialization has had at most a marginal impact on its economic

growth. While such non-traditional export specialization could become a successful strategy for economic growth, it has yet to demonstrate its effectiveness in the Senegalese case. Indeed, the global trend in production for extractive and chemical industries since 1977 has been downward, reflecting both inadequate global demand as well as commodity input substitution. As to the third factor, that is, relative inflation rates, what is clear is that Senegal, as a relatively small-share participant in global exports, continues to function as a price-taker in foreign markets and thus cannot inter alia control in any significant way the shaping of world prices for the commodities, traditional as well as non-traditional, in which it is engaged in exporting. This means that the demand for Senegalese exports is relatively price elastic, unlike the demand for some primary commodity exports from developing countries, notably petroleum exports, based on the experience of the 1970's.

1.2.2 The Balance of Payments Services Account

Before 1979, services in Senegal's balance of payments were both independent of GDP fluctuations and the trade balance as well as positive. A major contributing factor to the positive balance was the increase in foreign exchange earnings arising from tourism, from Senegal's entrepot and trading role in its Port and Airport services, as well as from expenditures by foreign government project missions in the country. Of course, all of these activities gave rise to a corresponding increase in the demand for imports as well, which tended to reduce the positive effects arising from the services account. In some cases, notably freight, merchandise insurance, and foreign transport, Senegalese service transactions involved net imports as these were not or could not be provided by domestic service agencies alone.

Taken together, Senegal's current account deficits, stimulated as they were by inadequate domestic savings combined with a growing use of external credit to finance public sector recurrent and capital expenditures, more than offset the positive balance in Senegal's international services account. From 1980 onwards, debt service payments rose beyond the CFA 10 billion level, reaching an extraordinary level of CFA 55 billion in 1985, and which resulted in a cumulative deficit in the service account.

1.2.3 Unilateral Transfers

While trade in goods and services have been negative, Senegal has managed to offset them to some extent by a sustainable level of unilateral transfers over the years. Yet, while some unilateral transfers reflect ongoing remittances from Senegalese expatriates working abroad, they also reflect foreign aid inflows, which have not necessarily been positive in terms of the impact on Senegal's rates of economic growth. Indeed, unilateral

transfers have never been sufficient to bring Senegal's international payments into balance, nor to prevent periodic debt rescheduling arising from the growing level of external public debt. Moreover, they were able to offset only to a minor degree transfer payments arising from factor income in the form of profits and interest. Without the continuing generosity of Senegal's financial benefactors, from positive remittances from the Senegalese population in diaspora, and from the ongoing stimulus of Senegalese public sector demand, the economy would have undoubtedly undergone a severe contraction during the past decade. The absence of contraction in Senegalese civil servant salaries thus contributed in a short-term fashion to Senegal's ongoing level of aggregate demand, even though the consequences of the debt which it engendered made this increasingly unsustainable as time passed.[4]

1.2.4 Financing the Current Account Deficit

During the last quarter century, net direct foreign investment in Senegal did not have a positive impact on Senegal's balance of payments. Not only did the irregularity of this investment have no effect on the growing deficit on the current account, but it also resulted in net profit repatriation at rates in excess of the level of investment during several years. For the 1977-1982 period, the comparative figures for each are given below in Table I

Table I
Foreign Investment Patterns in Senegal

Year	Net Direct Foreign Investment	Profit Repatriation
1977	CFA 3.4 billion	CFA 6.5 billion
1978	CFA 5.5 billion	CFA 6.2 billion
1979	CFA 2.1 billion	CFA 7.3 billion
1980	CFA 1.6 billion	CFA 5.4 billion
1981	CFA 2.3 billion	CFA 7.8 billion
1982	CFA 3.8 billion	CFA 8.0 billion

In light of the behavior of the various components in Senegal's balance of payments, foreign exchange reserves, which were never substantial, were bound to decline in the face of ongoing macroeconomic shocks to the economy. While foreign exchange reserves stood at $U.S. 78.1 million dollars in 1962, by 1969 they had contracted to $U.S. 6.2 million by 1969.

In the absence of foreign exchange reserves, other things equal, the only way to sustain a given level of spending is through an increase in the level of international debt.

With the exception of 1979, it consisted essentially in long-term public capital loans. Until 1981, Senegal managed to sustain the net inflow of public sector funds without undue consequences on the level of debt service payments. However, with the collapse in primary commodity prices in the 1980's, Senegal was able to maintain these flows only by resorting to periodic debt reschedulings, and in so doing, to avoid more radical measures such as foreign exchange currency rationing or by debt service capitalization.[5]

In looking at Senegal's balance of payments and at its weak rates of economic growth, it is remarkable that the country managed to avoid some of the more fundamental reforms which other countries have had to experience. Not only did it avoid foreign exchange currency rationing, but it also did not have to compress real levels of imports of goods and services, let alone GDP, in order to general a foreign exchange surplus sufficient to service its debt. In effect, debt rescheduling has been the principal means of adjustment.

1.3 Senegalese Monetary Policy

Statistics compiled by the IMF on Senegal's monetary policy show three distinct phases in the post-independence period. From 1960 to 1969, when net foreign assets were positive, Senegalese authorities implemented a de facto contractionary monetary policy. M-2 did not exceed the 1961 level until 1971. The reason for this contraction lay in the stagnation of funds to the private sector, as well as the deflationary impact of public sector credit policiesin relation to the banking system, i.e., repaying debt at a faster rate than the rate of expansion of credit by the banking system.

During the 1970's, Senegal began a period of monetary expansion. Interestingly, the decline in net foreign assets, from CFA 4.4 billion in 1971 to CFA -87.1 billion in 1980, which accompanied Senegal's rising deficit in its balance of payments, had no contractionary consequences on the level of liquidity within the economy. In fact, the money supply literally exploded during the 1970's, growing at an average annual rate of 17.2 percent, and with no immediate consequences on the level of inflation or on the rate of growth of GDP. The shift to an expansionary monetary policy was caused by several factors. One was the expansion of public sector debt and the associated increase in the money supply which increased foreign borrowing produced. Another factor was the implementation of an indigenization of the economy, known simply as "Senegalization", and which was designed to increase local business control over the economy during the post-independence period.

Senegal's third phase of monetary policy was marked by a shift to more moderate monetary expansion during the 1980's. Despite relatively high rates of expansion, at 21

percent in 1981 and at 22 percent in 1982, Senegalese authorities reduced the annual rate of monetary growth to just over 4 percent on average during the 1983 to 1987 period.[6]

The change in overall liquidity in the economy coincided with Senegal's worsening external position during the 1980's. For example, in 1985, net foreign assets represented CFA -258 billion, more than three times their value in 1981. Had Senegal adopted more radical adjustment measures such as credit rationing of foreign exchange, undoubtedly monetary growth would have become negative at rates even greater than those during the 1960's.

As we look at the components of the money supply, we find, somewhat paradoxically, that the most important element has been time deposits. The paradox arises, of course, because, as we have already noted, Senegalese households, firms, and the public sector generally exhibited low or non-existent rates of saving which had the corollary effect of an increase in the level of foreign debt. Yet, at the level of second-tier banks, Senegalese time deposits did show significant growth. Between 1974 and 1984, these time deposits represented 15 percent of the M-2 money supply. Since 1983, time deposits have also exceeded the level of fiduciary currency and have accounted for a level approximately equal to the level of demand deposits. Similarly, in 1985, time deposits were valued at roughly 10 percent of GDP.

1. 4 Prices

Although Senegal experienced substantial rates of growth in money and credit in the 1970's, there was never a corresponding increase in inflationary pressures. Even when Senegal experienced recessionary cycles, as in 1973, 1977, 1978, 1980, and 1981, inflationary pressures did not appear because there was no resort to rationing of imported goods and services as foreign exchange reserves declined. Much of this stability arose because, as a member of the West Africa CFA currency union, Senegal was able to sustain a sufficient level of foreign exchange reserves via internal transfers and by transfers from the French central bank, which remained committed to the CFA 50 to FF 1 parity ratio. In effect, the multinational character of the CFA currency union has served as an adjustment cushion in each of these past crises.

Despite Senegal's CFA currency union membership, it has experienced some brief episodes of inflation. Inflation increased beyond the 10 percent level in 1973, 1975, 1982, 1984, and 1985, largely in reflection of fluctuations in world prices of raw materials and in reflection of exchange rate fluctuations of the dollar relative to other major trading currencies.[7] That these inflationary pressures came and went even as monetary expansion

proceeded along broader patterns of growth reflects the external nature of much of Senegal's inflationary experience.

For Senegal, inflation has never been a handicap for exports. The reason for this is that Senegal's two largest export markets, France and the C6te d'Ivoire, both experienced inflationary pressures at rates comparable to those in Senegal. This has meant that there has been little pressure on the CFA exchange rate, particularly in the 27 years since political independence.

Beyond the changes in money supply, Senegal's monetary policy also had particular consequences on domestic interest rates. For the most part, real interest rates on time deposits in Senegalese financial institutions were negative. Yet they did not discourage the growth in time deposits. Indeed, they were accompanied by an increase in on-liquid investments in the banking sector since 1980.

Finally, over the long term, inflation in Senegal has not systematically worsened the terms of trade of the primary sector in relation to the secondary sector. Perhaps the most telling evidence of this stability can be found by comparing the growth rate of value added in the primary sector with the growth rate of value added in the secondary sector. For the 1960 to 1987 27 year period, the price deflator of each sector grew at approximately the same rate. In short, when all factors have been considered, inflation does not appear to have been responsible in any significant way for Senegal's relatively poor record of low economic rates of growth.

1.5 Public Finance

Despite Senegal's surge in external public debt, balances in public sector accounts seem to have changed relatively little since independence in 1960. To measure this stability, we can examine several key ratios:

a. Taxes and duties have always represented the major source of public revenues. This has been true despite the extension of the public sector after 1968 and the increase of the State's share-taking in the private sector after the first oil crisis beginning in 1973:
b. Tax revenues never superseded transactions in terms of adjusting the tax base with expenditures.
c. Households have always paid more taxes than businesses, even though gross production of the three sectors has always represented at least twice the level of wages and national insurance contributions;

d. Wages and national insurance contributions have always been the principal way in which the government budgetary units have set targets.
e. Gross savings of government units has never allowed for the financing of planned investments and therefore it has always been a necessity to resort to foreign financing.
f. Senegal has been a relatively undertaxed economy, with fiscal revenues never having reached even one-fourth of GDP, and since income taxes have rarely amounted to more than 5 percent of GDP.
g. As customs duties have only rarely equaled a quarter of their assessed value, they have represented a relatively unproductive source of tax revenues.
h. Wages and national insurance .contributions have always fluctuated around half of fiscal revenues.

In light of these patterns, it is fair to ask why did Senegal's crisis in public finance occur so recently, i.e., beginning at the end of the 1970's instead of coinciding with thefounding of the Republic? The major tendencies listed above provide us with a categorical answer: the State did not experience a financial crisis because it wrongly modified the fiscal and accounting characteristics of its management during the 1970's. It was basically the series of external crises which since 1980 halted State intervention and forced it to scale back its operations.

If foreign debt represented the principal means by which Senegal sought relief from the mounting pressures on public sector intervention, we need to see whether if in fact this has been the principal reason for the kinds of economic crises which have become so common during the 1980's. In the 1960's, foreign debt was already one of the preferred means of financing the equipment budget. On the one hand, debt service payments during this period usually involved no more than 5 percent of fiscal revenues. On the other hand the State had credit vis-a-vis the banking system. Why, then, was Senegal able to undertake such substantial increases in foreign debt?

Senegal's success in sustaining successively larger amount of foreign debt, at least until the 1980's can be attributed to two underlying reasons. First was that for the most part, Third World financing during the first decade of development was more in the nature of aid than an alignment with market driven conditions of international finance. At the time, the United States was discouraging expansion of the Eurodollar market. The other factor was that the 1960's were still years of relative price stability in world financial markets. It was thus possible to pursue for a while longer the Bretton Woods

fixed exchange rate system, including the pursuit of interest rate stabilization in world financial markets.

Senegal's decision to pursue a debt-based development strategy only began with the 1970's. Increases in public external debt reflected public sector salary increases in response to the energy crisis which began in 1973, the growth in civil service employment that accompanied slow rates of expansion of GDP, as well as the quadrupling of transfers and subsidies given to local business firms. It was during this time that public and private investment spending in current prices increased by CFA 30 billion to CFA 100 billion during the 1970-1980 decade.

It is possible that under certain circumstances, Senegal could have continued with its 1970's debt based strategy. They could have continued if: CFA exchange rates continued to remain upward relative to other currencies, low real rates of interest were to prevail in global financial markets, debt service indicators remained healthy, exceptional revenues were to continue from reselling of oil products, and exceptional revenues were available from primary commodity production and marketing, particularly in terms of peanuts. However, these conditions did not hold, nor was Senegal fortunate in terms of the onset of drought which began in 1970's just as international financial conditions began to become unfavorable.

Since 1979, the crisis in public finance has posed the problem of how the government of Senegal could adjust to new conditions on in international markets. One major consideration has been how to improve debt service management in light of increased volatility of the dollar in international currency markets. Given Senegal's reluctance to decrease public sector personnel, the only way of responding to higher debt service payments arising from dollar exchange rate fluctuations would be to compress material and transfer expenditures.

Another approach to adjustment would be to reduce public sector subsidies to consumers, to reduce subsidies granted to inefficient public enterprises, and even to liquidate the most inefficient ones. Such pressures have increased significantly as Senegal has experienced depressed foreign exchange earnings from such industries as phosphates and peanuts. The standard has been to set prices purely in terms of market supply and demand in order to arrive at "true prices".[8]

As the unsustainability of a debt-based strategy became apparent, Senegal has set about paring public sector support of inefficient public enterprises as well as reducing

subsidies on many consumer goods. All of these measures have been undertaken in the context of structural adjustment programs of the 1980's. However, there is little evidence thus far that these measures have done much to change the state of Senegal's public finance.

What, then, is the state of Senegal's public finance? Operating expenses still absorb all of the State's revenues. Public savings are still insignificant in relation to to scale of public sector investments. As a result., Senegalese is likely to be dependent for the forseeable future on foreign financial resources in order to satisfy its immediate financial needs, including the rescheduling of debt payments as well as ongoing budget financing decisions. Yet, the burden of debt service payments has continued to increase, with a corresponding negative effect on public sector savings. In short, Senegal is still back in the year 1979. It is still asking itself the same question: what policies do we use in order to adjust to a less favorable international environment?

II. Sectoral Analysis

II.I The Primary Sector

II.1.A Contribution to Growth

Given the coincident rates of expansion of Senegal's primary and secondary sectors, the primary sector played a relatively minor role in contributing to Senegal's overall rate of economic growth. during the first decade of independence.[9] It was only during the unstable and recessionary decade of the 1970's that the change in value added of the primary sector had any significant influence on the growth rate of the GDP.

In the 1980's, as in the 1960's, Senegalese GDP grew at rates largely independent of primary sector value added. The absence of a relation between the growth rate of GDP and the growth rate of primary value added is corroborated by contrasting the years of high growth and the years of low growth or recession. Primary value added growth rates explain approximately 37 percent of GDP growth rate when GDP is growing at rates of 4 percent or more. It accounts for 95 percent of the variation in GDP growth rates when GDP grew at -rates less than 4 percent.

The contribution of the primary sector to Senegal's growth in GDP basically reflects underlying changes in agriculture. For the most part, agricultural output changes accounted for some 60 percent of primary sector changes during the 1978 to 1987 period. The only exception was in 1987 when, for the first time, agriculture and primary sector activity moved in opposite directions, respectively by -1.3 percent and by 2.8 percent.

Agriculture's preponderance results much more from its dominant relative weight and the extent of its fluctuations rather than from its productive efficiency in the Senegalese economy. In fact, notwithstanding the fact that three quarters of investment outlined in Senegal's multi-year development plans were intended for the primary sector, the agricultural sub-sector experienced from 1978 to 1987 rates of value added increases that were always lower than those in stock farming and those in the Water and Forests subsector.[10] At the same time, value added in agriculture overall grew at an average rate of 2.7 percent during this period, while value added in stock farming grew at an average rate of 3.1 percent.

How has Senegalese agricultural activity been so inefficient? According to detailed analysis of agricultural production from 1960 to 1987, several trends can be cited:

a. Millet yields did increase exceptionally in some years, notably in 1973-1974 and 19841985. However, the maximum yield of 753 kilograms per hectare, in 1978, represented only a forty-six percent increase from their 1960 level, far less than in other regions of the world where millet cultivation has been undertaken.
b. In more than a quarter of the cases, increases in millet yields coincided with decreases in millet production, as in 1962, 1965, 1977, and in 1980.
c. Since 1980, millet production equaled twice the volume of production in 1960 only in one year, in 1986.
d. During the second half of the 1980's, rice production has annually been the same as that of 1969, at approximately 140,000 tons.
e. During the 1960's, average peanut yields of 865 kg per hectare were higher than those of the ten winter seasons after 1976, which averaged only 767 kg per hectare.
f. In 27 percent of cases for 1963, 1968, 1970, and 1980, the quantity of cultivated peanut fields increased while peanut production fell.
g. The peanut production in the 1960's, which averaged 920,000 tonnes per hear, exceeded the post 1976 ten-year average of 792,000 tonnes.

These measures of agricultural stagnation can be attributed to two underlying factors:

1. Ecological factors: From the end of the 1960's onwards, aridity due to droughts and overpopulation in the peanut basin have together resulted in a reduction in fallow fields, worsening soil quality, and accelerated deforestation. Crop

production and yields reflected less and less changes in input use and more subject to exogenous factors such as erratic rainfall patterns.

2. Organizational factors: The bureaucratic framework of the rural sector before 1980 did not always allow for the supplying of quality fertilizers and seed in sufficient quantities for farmers in time. Rationing survived the reduction of public intervention in the countryside from 1981 onwards because, in order to minimize the impact of the new rules of the game (which consisted in deducting from the amount paid to the peanut producer a sum set aside for the financing of seed and fertilizer), peasants tried to reduce their integration into official trade circuits on the one hand by increasing the portion of peanut production sold on parallel. markets (80% in 1984!), and on the other hand by curtailing their demand for .fertilizers (fertilizer consumption had been decreasing since 1981) and peanut seed.

In short, the preponderant contribution of agriculture to the primary sector, and consequently to the growth of the economy, has been relatively stagnant. Agriculture has thus not functioned as a dynamic sector which could affect growth and change throughout the economy.

II.1.B The Influence of the Primary Sector on the Balance of Payments

In Senegal, the primary sector has affected the balance of payments through four channels:

a. Exports of primary and/or refined products: although exports of peanut products, and fresh and preserved fish represent systematically less than half of the total value of exports since 1980, they have always exceeded all other goods exported by Senegal. Their variations have essentially determined variations in national production despite the instability of raw material prices and changes in the international economy from 1971 onwards.

b. Cereal imports: the gap between the national demand for cereals, e.g., rice and wheat, and production, has justified an increasing resort to foreign production. Rice imports tripled from 109,000 tons to 336,000 tons between 1960 and 1985.

Senegal's dietary dependence has not yet reached such a level that it has caused constraints in the balance of payments. On the one hand the non-rationing of foreign exchange in the national economy has always excluded, until the present day, any trade-off between imports of food products, and imports of equipment goods. On the other hand, the deficit in the current account would have decreased by less than 40 percent if cereal imports had been canceled during the period of the establishment of adjustment programs during the 1980's.

c. Foreign loans for financing investments in the primary sector: Considering that three quarters of all investments in Senegal's development plans have been financed with external capital funding, the primary sector's share in the increase in long term debt represented at least 20 percent of total debt growth between 1976 and 1981.[11]

d. The effects induced by the primary sector: Because of its effects on the secondary sector, notably in canneries and oil mills, and in the tertiary sector, e.g. businesses and transport, the primary sector has had induced effects on all imports of goods and services.

Given the first three of these factors, and how they have been linked to the balance of payments, suggests some particular outcomes from historical experience:

1. Volume exports of peanut products have always been unaffected by changes in international prices of oil products (the oil mills - before 1976 - or the SONACOS - after 1976 - have always exported in oil and oil cake for cattle the equivalent of all ground grains) because every time there was a difference between the national producer's prices and the price of foreign oil products, the CPSP (before 1986) or the security funds of the peanut industry (after 1986) subsidized the price of peanut input.

   Applying free market prices to SONACOS from 1981 onwards would have forced it to grind and internationally sell only the volume of oil products which would permit it to maximize the profitability of its oil mills under the constraints of their productivity and the market's relative prices. This possibility would have forced the peasants to go along with the oil mills' limited but variable demand for grain, improved the financial situation of the State through a more standardizing of prices for peanut

seeds, and forced the oil mills to reduce their coststli) more and more in order to increase their production and profits.

2. Rice imports tripled in 25 years because public intervention in the rural sector never made it possible for farmers to be able to produce a millet or rice surplus which would satisfy the urban demand for cereals. This situation was caused by the fact that agricultural policy has always kept peanut production as the most remunerative speculation to the detriment of cereals such as millet, which are not traded as much, or which have been costly from the perspective of public finances.[12]

   As one example, standardizing of prices of rice grown by irrigation farming has always been negative. In addition, farmers have always cultivated cereals mainly to satisfy their own needs, and secondly to respond to the market's demand. Subsistence farming has thus made impossible the progressive substitution of national production for rice imports. Furthermore, the rising trend of the demand for rice in urban zones has been maintained by the relative prices of imported rice and locally produced millet flour.

   The policy of maintaining the purchasing power of city dwellers, which has always consisted of minimizing the government price of Thai (or Siam) rice, and the denial of subsidies which millet not grown for flourmilling has always suffered, excluded the possibility of a millet flour price lower than that of imported rice.

3) The growth in the use of foreign loans to finance investments in the primary sector stemmed largely from the use of Stabilization Board (the Caisse de Perequation et de la Stabilisation des Prix, or CPSP) resources to standardize peanut seed prices, and which were in turn used partly to maintain the purchasing power of city dwellers and to offset losses in costly agricultural parastatal or bureaucratic operations. Had CPSP resources been used exclusively for primary sector resource allocation, there would have been less resource to the use of foreign capital.

II.1.C Sectoral Links to Public Sector Finance

Through its induced effects, the primary sector has always affected both the macroeconomy as a whole and the balance of publicsector finance in particular. Much of this linkage can be traced to specific organizational instruments of intervention which the Government of Senegal established in the post-independence era to orchestrate rural development policy.

Up through 1967, Senegalese authorities established a number of rural development agencies which were created to articulate and implement rural development policy. These agencies included:

BSD	-	the Senegal Development Bank
OCA	-	the Senegal Marketing Board
CRAD	-	Agricultural Research and Development Centers,
BNDS	-	the Senegal National Development Bank
ONCAD	-	the National Agricultural Marketing Board.

At the time, Senegal had relatively healthy levels of foreign exchange reserves. In addition, France was committed, at least up to 1967, to buying Senegalese peanut exports at premium levels over prevailing world prices. Finally, Senegalese authorities engaged in a systematic purchase of inexpensive Thai broken rice to enable price standardization operations to be undertaken.

As part of the fulfillment of the Treaty of Rome, in the period beginning in 1968, France was no longer able to buy Senegalese peanut exports at preferential world prices. In turn, this marked the gradual unravelling of Senegal's rural development policy, whose consequences are still being felt today. These consequences may be summarized as:

1. The drop in export prices for peanuts led to a decline in producer prices. This was further compounded by a significant decline in rainfall during the 1968 growing season, and which reduced ONCAD peanut marketing volume by 25 percent in 1969 in comparison to 1968.

2. Reduced monetary revenues in the rural sector since 1969 increased the insolvency of the farming industry and endangered the financial situation of ONCAD and BNDS.

3. Growing insolvency of farmers reduced the demand for fertilizers and other agricultural inputs. This decline thus adversely affected ONCAD official input suppliers such as SISCOMA and SIES.

4. As monetary income fell in the countryside, farmers began to shift production away from peanuts to traditional subsistence crops such as millet.

As French price supports were withdrawn, Senegal's adjustment was tempered to some extent by the European Economic Community's newly established European Development Fund (FED). Senegalese demand for European Development Fund resources increased sharply in response to the droughts of 1971 and 1973 as well as in response to the energy crisis of 1973. Since 1973 was characterized by both drought and the energy crisis, Senegalese authorities engaged in a series of extraordinary public finance actions built around a national recovery plan.[13]

The components of this plan consisted in: an increase in producers' prices, the allotment of 'a CFA 4 franc discount for peanut producers, the use of Government of Senegal funds for defaulting debtors of ONCAD (which already had CFA 3.5 billion in expenses), the free distribution of emergency supplies to Senegalese farmers (at a cost of CFA 410 million) and a corresponding distribution of feed rations for cattle (at a cost of CFA 250 million), an expenditure of CFA 686 million for the drilling and maintenance of water wells, and a price freeze on essential products.

Continuing fluctuations in global financial and product markets during the second half of 1973 did much to reduce the effectivness of the Senegalese Recovery Plan. One result was an increase in the required level of subsidies by CFA 10 billion, which was needed to sustain the operations of the newly established CPSP. At the same time, the Mideast Yom Kippur war which broke out in October 1973 was followed by three good harvest seasons in 1974, 1975, and 1976, and which cumulatively increased the funding base of the Senegalese government and its associated parastatal organizations. In turn, these developments translated into:-

a. Producer prices experienced growth rates of more than 25 percent in 1975, from CFA 29 francs to CFA 41.5 francs in the case of peanuts.
b. Mutual fund grants for rural development allotted to support the agricultural program were quadrupled between 1973 and 1976;

c. Senegal's sugar parastatal, CSS (Compagnie Senegalaise Sucriere), which had been established as part of the investment code reforms in 1970, was increasingly non competitive in world sugar markets and the government of Senegal began a series of measures to provide operating subisidies by Senegal's Marketing Price Board, the CPSP.
d. Senegalese authorities decided to creatadditional rural development parastatal organizations: SNIT, STN, SODAGRI:
e. The State repurchased remaining peanut processing oil mills of the colonial era and created SONACOS, its own marketing organization for oil products (1975):
f. The public sector became overcrowded with overlapping development organizations.

Senegal's limited ability to sustain operations of its newly expanded parastatal organizations for rural development became apparent in the latter 1970's. Two successive droughts, in 1977 and 1978, as well as a steep drop in international prices for oil products and phosphate in 1976, did much to compromise the pursuit of this expansionist orientation. The State then had to progressively align the domestic prices of food products with foreign prices (notably in the case of rice and peanut oil) in order to financially relieve the subsidy costs of the CPSP. However, even these measures were not sufficient to halt the slide in prices and incomes in the rural sectors which all of these institutions were designed to counteract. As Senegal experienced chronic contractions in the rual sector and as parastatals found themselves unable to stem the tide, some organizations began to fold, beginning with the liquidation of ONCAD in 1980 by Senegalese authorities.

From 1981 onwards, Senegalese authorities began a gradual policy of disengagement from the primary sector. Once ONCAD was liquidated, the State inherited its liabilities, which stood at CFA 67 billion in 1980. The poor growing season in 1980 also led to a relatively small level of peanut production, at 488,000 tonnes. In turn, this led authorities to undertake a loan from the French Development Agency, the CCCE (Caisse Centrale de Cooperation Economique) which was issued to the Senegalese national rural credit board, SONAR (Societe Nationale Agricole Rurale) so that it could finance the replacement of some 120,000 tonnes of peanut seeds for the next growing season.

With substantial expenses associated with the transport and distribution of seed, even the loan by the CCCE was insufficient, and SONAR required additional subsidies by the CPSP to sustain its operations. However, this was complicated by pressures on the CPSP

to compensate Senegal's marketing organization, SONACOS (Société Nationale de Commercialisation du Sénégal) for its role in seed marketing. Finally, in order to discourage parallel marketing of peanut production, Senegalese authorities decided to increase peanut producer prices by 28.5 percent, from CFA 70 francs to CFA 90 francs in 1986.[14] In virtually all of these operations, price standardization operations for such commodities as sugar and irrigated rice have led to negative balances in CPSP accounts.

II.1.D Sectoral Impacts on Senegal's Money Supply

In spite of its important macro-economic effects, the primary sector seems to have lost over time much influence on Senegal's monetary sector.

1. Farmers' credit, which gave the money supply a cyclical trend - a great deal of issuing of money during the first trimester of the year, little issuing during the winter season - lost a lot of its economic importance. On the one hand, the average share of farmers in the supply of total credit was less than 25 percent from 1975 to 1987. Credits outside of the rural sector experienced an average growth higher than that of total credit.

   On the other hand, the progressive rise of mid and longterm credits, which accounted for more than 40 percent of total credit in the period since 1985, has had a stabilizing role in terms of the overall impact on the money supply.

2. Following the disastrous agricultural campaigns of the 1970's, Senegal experienced an increase flux in speculative and unproductive credit flows. Some of this reflected the consequences of mismanagement by ONCAD, but did not immediately pose any adverse consequences on monetary fluctuations. Credit or debit interest rates did not suddenly become explosive in order to attract savers or to maintain banking profits in spite of lesser financial capacities.

   The national discount rate (TEN, or taux d'escompte national) was not increased during this period, thus sparing banks from inefficient management from the consequences of their operations. In turn, the central bank expanded its role in refinancing credit operations of second-tier banks.[15]

3. Net foreign capital flows have decreased periodically since 1973, a pattern independent of changes in activity in the primary sector although:

   a. value added by the primary sector has always had the same variations as GDP;

   b. GDP and the trade balance have always diverged:

   c. the trade balance and the balance of the current account have diverged exceptionally (1975, 1979, 1983);

   d. the deficit of the current account has traditionally been financed through loans from international capital markets.

4. Only the Government's net debtor position to the monetary system, which has been worsening since 1973, can be linked to the primary sector in so far as it is in part an indicator of serious deficits which climatic and international risks have burdened public finances via the ONCAD, CPSP, SONAR or the SONACOS (cf. *supra*).[16]

11.1.E The Evolution and Impacts of Prices on the Primary Sector

During the post-independence era, primary prices in Senegal kept pace largely with the general level of prices in the economy. For example, from 1961-1987 the average growth rate of the index of producer prices (DVAP) was higher than that of the index of consumer prices (DPIBE), at 6.95 percent and 6.37 percent, respectively. Although reversed during the 1981-1987 period, this pattern held largely for the 1960-1980 period. In turn, there was an infinitesimal difference in the expansion of the African consumer price index (PCM) and the primary producer price index during the 1967-1987 period.

During the 1978-1987 period, prices rose by an average of 14.6 percent in the agricultural subsector. This rate was generally higher than the rates for stockfarming (at 8.49 percent), for fishing (at 8 percent) and for water and forest resources (at 4.51 percent). Price increases in the primary sector do not seem to have had a major impact on inflation rates. That this appears to have been the case suggests that the CPSP has had some degree of success in stabilizing producer and consumer price fluctuations in the economy.

Finally, agricultural price policies appear to have had little effect on producer behavior, at least in the short-term. We see this in noting that:

a. in 50 percent of cases (1967, 1974, 1980, 1982, 1986) the net peanut producer's price and peanut crops production diverged in opposite directions:

b. in 44 percent of cases (1971, 1975, 1982, 1986) the net millet producer's price and millet growing diverged in opposite directions:

c. in 54 percent of cases (1961, 1963, 1965, 1967, 1971, 1980) farmers reacted to any change in relative prices between peanut and millet by simultaneously increasing their wheat and peanut fields.

11.2 - The Secondary Sector

II.2.A Contribution to growth

Senegal's secondary sector value added has doubled between the mid-1960's and 1987(16). This performance undoubtedly reflects a dynamism specific to the secondary sector. In more specific terms, much of this can be attributed to specific subsectors in the-secondary sector. These subsectors include: the energy industry, phosphates, chemical industries whose growth during the 1960's and 1970's was followed by a decline in the 1980's, and textile industries with regular but weak growth.

Despite this dynamism, the secondary sector remained marginal in terms of its average contribution to growth. It accounted for 19.11 percent of GDP growth in the 1960's, 5,84 percent in the 1970's, and 11.9 percent for the period between 1971 and 1987. The relative insignificance of the secondary sector is that it has generally accounted for only 30 percent of overall value added in the economy.[17]

Despite their declining relative impact (not more than 10% of the secondary sector's value added volume since 1978), oil mills still determine the growth of the secondary sector. Between 1978 and 1987 the explanation of this apparent paradox is found in the extraordinary dispersion of volume growth rates of oil mills - 346 points separate their maximum and minimum rates - which is without an equivalent in the other industrial subsectors and which reflects in the last analysis the unpredictability of rainfall.

Oil mills are far from being the model of efficiency. From 1978 to 1986, their value added rate was systematically below 25 percent. This rate was, on average, exceeded by the value added rate of the BTP, energy, chemical, textile and extractive industries. From

1978 to 1982, productivity at constant prices of work in oil mills was on average less than that of extractive industries (CFA 2.96 million vs. CFA 3.65 million).

II.2.B Contribution to Public Finances

The secondary sector's ability to grow more than the overall economy has not had a major influence on Senegal's public finances:

a. during the 1960's, indirect taxes from the secondary sector never represented 15% of all indirect taxes registered in the State's budget:

b. during the 1970's, the big increase in indirect taxes paid by the secondary sector (30% in 1979) coincided with the State's need to subsidize more and more the production of industries hit directly by the modification of relative prices caused by the two oil crises;

c. between 1980 and 1986, net indirect taxes from production subsidies went from 48.97 billion (11 times their 1970 level) to 2.76 billion after going below the zero mark three times (1982, 1984, 1985).

d. with the exception of 1974, 1976, and 1977, the ratio of taxes on the BIC paid by industries on total direct taxes never exceeded 25%.

e. in the 1970's (1974, 1975), the large dividends paid by the CSPT to the State were short-lived due to the slump of phosphate prices which started in 1976:

f. the industrial public sector and its extension following the first oil crisis forced the State to contract directly, endorse, or resell international loans, the repayment of which it had to assure when the financial crisis (1978-1982) made the whole public sector illiquid:

g. the price increase of imported intermediary goods and the high cost of energy in Senegal have made it necessary for the State to give export subsidies to the fishing, phosphate, textile, and shoe industries from 1981 onwards.

The low net contribution to public finances by industries indicates the failure of industrial policy as defined by the six investment codes(18?: the philosophy according to which the establishment of new industrial activities depends on the granting of fiscal benefits, price and/or non price - has not given rise to a cooperative understanding between capitalists and the State: the costs of fiscal opportunities accepted ex ante by the State as a contributing factor to the profitability of the majority of investments (cf the 1970's) have not been counterbalanced ex post by additional fiscal revenues brought about by new industrial activities and their interindustrial impacts.

On the contrary, since Independence, except for the period from 1972 to 1977, fiscal tax exemptions have limited to less than 10% the part of the gross production yield of the secondary sector that the State deducts from the secondary sector through direct taxation; protection granted to certain activities approved by the Investments Code forced the State to subsidize the other subsectors penalized by external diseconomies (over-pricing by monopolies) and which are exposed to international competition and/or to an inflationary surge of external origin (cf the two oil crises); the agreed business law recognized for major investment projects (CSS, BUD, DAKAR-MARINE, etc.) caused shortages in the public sector (SONEES, SENELEC) for which the State compensated through either subsidies or international loans which it had to endorse; finally, the endorsement of the loans used too generously by the State as an incitement for industrial growth has made it inherit the liabilities of significant businesses which failed (SOSAP, BUD, SEIB).[18]

We can then understand why the NPI was launched at the tine of a major public finance crisis: besides the necessity to create an environment that was more favorable to polarization international markets which were more extensive than the local market, it was essentially a matter of the State informing the capitalists on the one hand that in the future it would no longer take over the survival of non competitive businesses, and on the other hand that the common law in fiscal matters would be the rule towards which any privileged investor would necessarily tend because of the automatic decline (Cf. law 87-25) in the benefits which would be granted to him.

II.2.C Contribution to the Balance of Payments

The contributions of the primary and secondary sectors to exports are inseparable: the unchanged predominance in the external market of exports of peanut products and fish products resulting from the transformation of primary products, can not be attributed to any single one of the two sectors.

No specific export of the secondary sector has proved competitive with exported products of the primary sector since 1960: the value of phosphates in 1974 (25 billion) which represents a growth rate of 400% after the first oil crisis has only been exceeded twice in the past 13 years (28.7 billion in 1984, 27.3 billion in 1985): oil products which have not shown any marked trend in terms of quantity have seen their value inflate or contract according to the changes in OPEC prices since 1973; the ICS' phosphoric acid, too recent (1984) for its growth to lend itself to formal analysis, does not seem to have a bright future, given the over production of fertilizers (whence the current management problems of the ICS) and of cereals on the world scale.[19]

As a consumer of imported inputs - wheat, petroleum, powdered milk, thread, jute, sulfur, ammonia, potassium, dye, lubricants, PVC granules, metals, etc... - and mainly specialized in light transformation industries (investment goods are imported), the secondary sector on the other hand has had distinct effects on imports. If one considers that half of all imported equipment goods consist of investment goods intended for the industrial sector, value imports linked to the secondary sector have always been predominant, representing more than 50% of the demand for foreign goods and services in Senegal since 1970.

If industry has rather maintained Senegal's trade balance - its exports (peanut products + fish products + phosphates + oil products + fertilizers) have always exceeded its imports except for the years of steep drop in peanut production (1973, 1978, 1980, 1981) - its control by superior foreign capital and management has, on the other hand, permanently applied pressure on the deterioration of the current account.[20] If one considers that one fourth of the value added value of industry was annually transferred abroad by foreign employees and share holders (which is likely, given the extraordinary salary rates offered to strangers, the protection granted by the investment code and the franc zone guaranteeing free transfer of capital), the secondary sector could have reduced the deficit of the current account by at least 50 percent before 1980, at least 25 percent after 1980. These percentages would have been even higher if the financing capacity of the public industrial sector had made it possible to do away with foreign loans as a means of financing the majority of the secondary sector's investments registered in the development plans.

II.2.D Contribution to the Money Supply

The secondary sector's impact on the money supply has never been distinguished from that of the overall economy: it has been an integral part of the primary sector's

impact from the boom years of agricultural production onwards: when the secondary sector was an island of expansion in a sea of recession (1967, 1969, 1971, 1981), the increase of the money supply did not represent a substitution of industries' not only in the commercial sector in the allocation of short-term credit, but in construction (BTP + fixed companies + individuals) in the allocation of mid and long-term loans.[21]

11.3. - The Banking System

II.3.A Contribution to Growth

The banking system has supported economic growth through two channels:

1. The financing of the-agricultural program (i.e. the production and marketing activities of agricultural products): this activity passed on by the colonial economy is a contribution to growth despite its seasonal and sectorial nature because Senegal's years of high growth have always been those where consortial credit allowed for a boom in production and marketing of agricultural products. This was possible because monetary policy never imposed exogenous norms on the agricultural program limiting and making the possibilities of refinancing the consortial credit more expensive. If this favor allowed banks to prosper (the added value of the banking subsector decreases with the level of agricultural activity), it also made them assume considerable risks: since the 1970's, the banking system has accumulated a growing series of doubtful and contentious credit worsened by ONCAD bankruptcy which would have paralyzed the whole monetary economy of the country, had it not been for the Central Bank's agreement to not penalize second rank banks by making their access to refinancing prohibitive.

2. Interest rates: with all due respect to public rumor, debtor interest rates have always been low in Senegal. Low in relation to what? Low in relation to foreign interest rates (particularly French rates); low in relation to the deficit of financing capacity which has always characterized this country. What can be said? Since its creation, the Central Bank has never aligned the bank rate with the monetary policies of the international scene: that second rank banks, constrained by banking regulations, have applied debtor interest rates lower than those that the international economy and the imbalance between their assets and liabilities should have permitted. These low rates, while isolating the national economy from volatile international financial markets even after 1979, have always prevented the possibility of a recession of monetary origin.[22]

Their permanence, nevertheless, has cost the banking system a high price: firstly, an opportunity cost: secondly, a limitation of its ability to offer positive creditor interest rates with a view to attracting financial capacities invested abroad or in informal markets: thirdly, discouragement from borrowing from, abroad to finance national economic development: fourthly, a permanent dependence in relation to the Central Bank; fifthly, a monetary policy forced to be flexible if it is not to block the whole banking system.

II.3.B Contribution to Public Finances

The 20 percent rule of fiscal revenues of the last known fiscal year has not signified,in practice, a refusal by the banking system to finance the extension of the State's activities which occurred after Independence. Through the agricultural program (understood in the sense above) and the significant public sector which the State has always financed, the banks have supported the State's budget through public finances. As a matter of fact, had it not been for the loans given to the public sector, the State would have had to grant more subsidies and contract more loans - which would have increased the budgetary deficit - in order to support its presence in all sectors of the economy. The financial crisis from which the banks suffered since 1978 is the exact proof of the restrictive application (it does not concern the GNP) of the "20 percent rule": it would never have taken place if the share of public businesses in the allotment of credits had not increased to the point that the non recovery of their total debts to the State endangered the liquidity of the banking sector.

In other terms, strict management of the public sector would have permitted the State to have the extension of its intervention activities financed indefinitely through the banking system. The State's current dependence vis-a-vis foreign financial backers is not registered in the rules of the franc zone!

II.3.C Contribution to the Balance of Payments

The banking system has played a significant role in the continuous deterioration of Senegal's net foreign assets because of its operating rules:

1. The free transferability of capital within the franc zone has allowed the second rank banks to maintain permanently an exterior debtor position which has grown continuously since 1976 in spite of the parallel increase of credits refinanced by the Central Bank and the weak contribution of foreign capital loans to the liability of banks (less than 20 percent).

2. The automatic application of the 20 percent rule{23) and the automatic refinancing of the agricultural program have statutorily prohibited any monetary policy which compresses domestic demand to the point that the importing of goods and services is made compatible with any target levels of the current account and of net foreign assets. That is why despite their establishment from 1980 onwards, stabilization programs have not increased net foreign assets nor the balance of the current account at all (cf *infra*.).

II.3.D Contribution to the Money Supply

From the perspective of the operation of the banking system, the money supply (M2) is the result of the interaction between the Central Bank and second rank banks (the monetary base) under the constraints of the behavior of non financial agents (demand for fiduciary currency) and under institutional pressures (the reserve coefficient). In Senegal, the monetary foundation has always been composed mainly (75% at least) of fiduciary currency due to the inexistence of a legal reserves coefficient which dispensed banks from freezing a large proportion (less than 10%) of their deposits with the Central Bank. As for the currency multiplier which mainly reflects the variations of the constraints of the treasury imposed on banks by their clients (fiduciary currency over deposits), it experienced regular growth until 1977 (1.83 in 1962 to 2.93 in 1977); since then it has been erratic (from 2.84 in 1978 to 2.50 in 1987 while going to 3.14 in 1984 and 1985).

The counterparts of the monetary foundation have changed since 1960 to the point of accounting for all variations of the money supply's counterparts: net foreign assets which were positive but decreasing until 1974 became systematically and cumulatively negative from 1976 onwards; net credits from the government which were weakly negative until 1975 passed the zero mark in 1976 and increased systematically since then (they were multiplied by 38 between 1976 and 1983!): credit from banks, which represented a fraction of the monetary foundation until 1972 (around 90%), today are are higher than 50% of the base. In other words, since 1976 the Central Bank's accounts show an adjustment of monetary aggregates reflecting a deterioration of the balance of payments and public finances: the monetary policy is accommodating.

III. - Analysis of Policies

According to the framework(24) defined by the IMF and the World Bank to evaluate stabilization programs presented for their financial support, economic policy consists first in choices for demand management, the function of which is to reduce the gap between aggregate demand and production capacity. It consists also in establishing a structural

policy to extend production capacity, and in an exchange rate policy which should encourage the production of internationally exchangeable goods. Finally, it consists in establishing a foreign debt policy meant to assure the continuing access of financing of the national economy through foreign capital, where appropriate.

Be it by the interdependence between their objective - the more production capacity expands, the easier it is to control aggregate demand. The Nation's credit in international financial markets is inversely proportional to the excess demand for goods and services; the production of internationally exchangeable goods contributes directly and indirectly to expanding the capacities of national production: by its positive impact on the balance of payments, the production of internationally exchangeable goods encourages foreigners to inject capital into the national economy. These four aspects of economic policy should be compatible, yet their instruments nevertheless differ:

1. Monetary and fiscal policies are the instruments of the policy of demand. Monetary policy is equivalent to a control of the money supply by the Central Bank meant to influence the demand for credit through interest rates as the intermediary. It should be strict - it should increase the pressure upward on interest rates - when the expansion of domestic demand is independent of domestic production.

2. Its efficacy depends firstly on the movements of capital which can neutralize it more or less rapidly, secondly on the flexibility of prices and incomes which can make the contraction of aggregate demand more or less short-lived, thirdly, on the elasticity of investment in relation to interest rates without which monetary policy is deprived of a major transmission channel. Fiscal policy affects domestic demand directly through the intermediary of the public demand for goods and services; indirectly through the intermediary of taxes that decrease the purchasing power of private agents. Its efficacy is greater when it does not generate an eviction effect, that is to say a variation of interest rates contrary to maintaining its impact ex ante on aggregate demand.

3. Price policy is the instrument of structural reform policy. It consists in suppressing all distortions which by discouraging the holders of factors of production and the producers are opposed to the manifestation of the potentialities of growth of the economy. In practice it should allow the law of the-market to substitute for institutions and regulations which generate

a protection of the domestic market contrary to the expansion of exports, an allotment of agricultural resources not founded on the structure of international prices, for actual negative interest rates non compatible with domestic financial capacity formation. Its efficacy is proved by the excellent results achieved by the countries (NIP) that structured their economy according to the logic of the world market.

4. The exchange rate is evidently the instrument of the exchange rate policy. It must vary in order to assure the competitiveness of the national economy, that is to say the ability of national producers to sell their products in foreign markets at the same price as their competitors. This demand amounts to the targeting of a real exchange rate, that is to say, to compensate, to a certain extent, for the inflation differential between the national economy and the exterior. This, however, is a problematic task considering that domestic inflation is in some part caused by imported inflation.

5. Foreign loans are the instrument of the foreign debt policy. They should finance the accumulation of capital under the constraint of the exporting sector's ability to generate the currency necessary for their reimbursement; if not they will become obstacles to growth (the servicing of the debt gives the national revenue an irreversible decreasing trend).

6. A specific combination of these instruments makes up an economic policy "package". The combination that characterizes the macro-economic adjustment is composed of a restrictive monetary policy, a strict fiscal policy, a partial or total freeing of the economic sectors, the devaluation of national currency and control of foreign debt.

Did the policies implemented in Senegal before the intervention of the IMF and WB (1979) go further away from an adjustment package than those that followed them? This is the key question upon which are based the following ideas concerning the evaluation of macro-economic management since Independence.

III.1 Monetary Policy

Senegalese monetary policy, as observed in terms of statistical data from the 1960's would not be termed as expansionist:

a. the 240 day clause associated with Tresaury advances (abolished by the reform of 1973), has served as a limiting factor which has minimized government borrowing from the banking system (it never exceeded 3.5 billion CFA) and kept the government's net asset position below zero;

b. Ceiling restrictions on individual rediscounting imposed on financial intermediaries and non-financial intermediaries (this rigorous means of control over the money supply disappeared as well under the reform of 1973) prevented the expansion of credits to the economy to compensate the contraction in foreign net positive assets concominant with the disappearance of numerous french firms which had been operating in the country and by their replacement by a network of Senegalese diplomatic missions throughout the entire world (a reduction in unilateral official transfers (this being my explanation for the reduction in foreign assets of the Senegalese balance of payments during the 1960-1967 period. M-2 increased on the average by 17.6 percent. The GDP deflator was valued at 7.7 percent).

c. Control over the money supply kept the level of M-2 below its 1962 level until 1970.

d. There was no inflation of monetary origin: between 1962 and 1967, prices (the PIBE deflator in value) grew on the average twice as fast as the money supply (at 1.81 percent against .91 percent)

The explanation for uninterrupted growth - with the exception of 1969 - in domestic demand between 1960 and 1970, and the macroeconomic consequences must thus be sought elsewhere than in terms of monetary policy. In contrast, the 1960's were, in the eyes of Senegalese economic observers, the decade in which monetary policy was made the instrument to respond to the disequlibria of the national economy. Argments put forth were basically stabilization programs put in place since the beginning of the present decade:

a. the non-alignment of the discount.rate on international financial markets after 1971 favored capital flight and accentuated the reduction in foreign assets;

b. the overexpansion of government's net asset position beginning in 1976 was not compensated for by a break on private credit, from which came a growth in domestic demand at a time when the supply of goods and services was compressed by a series of droughts;

c. the cumulative deterioration of net foreign assets after 1972 dis not give rise to a countercyclical management policy of golbal demand based on a contraction of credits in light of an increase and the balance of the current account and foreign assets.

If between 1972 and 1980 the supply of money in real terms experienced an exceptionally low rate of growth, 10 percent on average, in the context of the disequilibria during this period, e.g., the 1960's opened with an economic and financial adjustment plan, there is no proof that the coincidence is equivalent to a cause and effect relation. On the other hand there is also no proof that it then became the function of monetary authorities to stimulate global demand despite the contraction in productive activity.

In effect, the excess liquidity of the 1960's did not change one iota the trend of domestic demand: it grew at the same average rate (3.08 percent) in the first two decades of the post-colonial era. In turn, the tripling of the deficit in the commercial balance between 1975 and 1978, from CFA 26.8 billion to CFA 76.8 billion, and the corresponding emergence of negative savings in 1980, should be attributed to the reduction in Senegal's GDP brought about by recurrent droughts between 1970 and 1980.

Monetary policy did not cause the disequilibria of the preceding decade. Instead of having been contercyclical, it was in effect accommodating. One could have raised such a criticism had Senegalese monetary authorities directly or indirectly placed limits on all of counterpart funding of the money- supply. It should be noted that, while not applied in this instance, the statutes of the West Africa Central Bank (BCEAO) have always defined this authority.

Although the West Africa Central Bank, or UMOA (Union Monetaire Ouest Africain) has generally had a uniform discount rate policy, Senegalese authorities, notably the National Credit Commission, even with possibilities for exceptions to this policy, could not stem the deterioration in net foreign assets during the 1970's. Other countries in the monetary union, notably Togo, Benin, and Niger, did manage to stem the deterioration in their net foreign assets through a series of alternative measures. As to Cdte d'Ivoire, it

decided to unilaterally apply the French financial market rate once it began to confront a similar slide in its net foreign assets.

Why was Senegal's experience so disappointing? First, Senegal's economy has been particularly sensitive to variations in rainfall levels. The automatic refinancing of credits through its agricultural program has meant that during the years of good rainfall, monetary policy can not be used to target a desired level of foreign assets if agricultural credits and their impact are opposed to a contraction in global demand. In addition, Senegalese authorities have used a floor rate of 20 percent to impose a priori a lower limit for monetary expansion whatever may have been the macroeconomic disequilibria ex-ante when the government's program reflects in particular the impact of an expansionary fiscal policy.

The endogenous character of monetary policy that began in the 1960's explains in my view the reason why stabilization programs have not been able to reverse contractionary patterns in Senegal's net foreign asset position since 1980. The Government's net asset position will not contract as long as the Treasury policy remains exogenous and the rule of 20 percent returns applies. Net foreign assets will not move toward an equilibrium as long as Treasury policy requires a contraction in credits which is incompatible with demand for economic growth and with the 20 percent rule. It will also fail to adjust as long as there is automatic refincing of credits from Senegal's annual agricultural program.

Despite Senegal's increase in net foreign assets in 1986 and the contraction in the government's net asset position in 1987, there is little evidence that monetary authorities have demonstrated a willingness to break from past practices.What these episodes do point to is a need for an exogenous monetary policy as a necessary precondition for any successful adjustment program.

111.2. - Foreign Exchange Policy

Senegal's foreign exchange policy has been governed by a 1962 accord between the West Africa Central Bank and the French government. This accord fixed the CFA to French franc exchange rate at 50 to 1. However, intervention by the Senegalese government in domestic product and factor markets has had consequences on Senegal's balance of payments. These policies have thus constituted an indirect foreign exchange policy, even though the nominal foreign exchange rate has remained fixed. Moreover, as the French franc has fluctuated against other foreign currencies, there have also been indirect effects on the balance of payments in terms of non-franc trading transactions, notably in terms of the CFA to $U.S. dollar exchange rate.

Before the present decade, with the exception of price supports granted to Senegalese oilseed products up to 1967, there was no export price policy in effect.The state chose to intervene in imported goods pricing at both the product and factor market level. It opted for rice subsidies in the case of urban' food consumers, largely by emphasizing the importing of Thai broken rice with subsidized purchases by the Price Equalization and Stabilization Board (Caisse de Perdquation et de la Stabilisation des Prix). At the producer level, it chose to subsidize fertilizer consumption by rural farmers, again through the Price Equalization and Stabilization Board, up to the establishment of the Senegalese Fertilzer Company (SIES, or Societe Internationale des Engrais du Senegal). In addition, Senegalese authorities adopted a foreign capital investment promotion program based on selected tariff exemptions as listed under various investment codes.

The results of Senegal's interventionist policies involving foreign exchange were often disappointing. Because of the heterogeneous and multiple objectives involved, the modification of relative prices between imported and domestically produced goods was frequently incoherent. These actions created simultaneous pressures for currency revaluation and devaluation. As one example, providing tariff exemptions to foreign capital imports constituted an artificial revaluation of the CFA franc. Revaluation moves are also evident in pursuit of subsidies for basic foodstuffs such as imported rice, as well as in the importation of agricultural inputs such as fertilizer.

Pressure for devaluation arose because of Senegal's noncompetitive position in the export of many internationally traded goods, notably peanuts and peanut products. At the same time, Senegal's competitive position was further eroded by the imposition of export surcharges on many goods. Except during the grade period of 1974-1978, the setting of peanut producer prices below relatively low international levels caused farmers to substitute non-traded millet production for peanut exports, and to seek parallel export markets for what peanut production in which they were still engaged.Beginning in 1980, Senegal's foreign exchange policy experienced two innovations. First was the setting of a more explicit export price policy. This was equivalent to a devaluation of the CFA franc. It consisted in subsidizing certain exported goods, notably, fish, fertilizers, textiles, and shoes, in order to enhance their competitiveness in global markets.

The second innovation was the decision to move to deregulate many controlled prices in favor of free market equilibria. Deregulation proceeded on a system-wide basis. It included reforms in the import duty code, passage of a new investment code, implementation of a new industrial policy, and implementation of a new agricultural

policy. Taken together, these measures were designed to align factor prices with import prices, as well as to align prices in domestic and foreign markets, with a view toward greater economic efficiency.

It is too early to draw a preliminary conclusion on the consequences of these reforms. Experience thus far suggests that Senegalese exports have yet to become more competitive in international markets, nor have these reforms resulted in the emergence of new internationally traded goods in the Senegalese economy. As long as Senegalese exports remain relatively stagnant, we can thus note several anticipated consequences:

a. supply constraints: Because the reforms allow for greater access to Senegalese offshore fishing, Senegalese territorial waters are less and less well stock with fish;

b. continuing imbalances between the domestic and international market, notably, unsold stocks of Senegalese fertilizers, textiles, and shoes in international markets which the new policy was designed to foster.

The non-emergence of new exports demonstrates that adjustment through the opening of domestic markets to international competition may not be an answer to Senegal's recurrent problems in its balance of payments and in its relatively low rates of economic growth. In fact, numerous surcharges have now once again been imposed on goods and services in the domestic market, e.g., cement, sugar, and energy, to cite but three major commodities.

111.3 – Senegal’s Industrial Policy

III.3.A The Agricultural Sector

Despite the new agricultural policy and its antiinterventionist principles, Senegal has always defined its policy on agricultural development through continuing extensive intervention by the public sector. Indeed, before the onset of structural adjustment policies, state intervention was nearly universal in all domains. It consisted in the fixing of agricultural producer prices, in shaping associated institutional production and marketing structures, as well as in the allocation of financial credit to the agricultural sector. The list of these institutions, both past and present, is extensive, from which one should note: .

Despite Senegal's official commitment to policies of extensive state intervention in agriculture, successive droughts and their associated economic consequences provided

convincing evidence of the non-productive character of all forms of state control. As illustrations, one need only consider the following:

a. The fixing of significant margins on marketed peanut products in order to finance the activities of Senegal's now defunct agricultural marketing board, ONCAD (Office National pour la Commercialization Agricole et du Ddveloppement), the bankrupt Senegalese National Development Bank, BNDS (Banque Nationale Pour le Developpement du Senegal) led peasant producers to shift their activities into parallel markets, both internal and external, as in the case of products passing through the Gambia;

b. Solidarity within cooperatives penalized conscientious paying peasant producers. Such producers could not go into debt under their own name.

c. Replacement of seed stocks was compromised by each drop in peanut production;

d. Because producer prices were indexed neither to primary input prices nor to consumer prices, peasant producer purchasing power languished, thus limiting the spread of new cultivation techniques:

e. In cases of critical financing needs, peasant producers often sold their inputs in the market, especially fertilizer:

f. Declines in monetary revenues of peasant producers caused a substitution of millet for peanuts, thus limiting cash crop revenues in both the domestic and export markets;

g. Peasant initiatives in production did not revive in the aftermath of periodic crises such as drought, even though the Senegalese government continued to intervene regardless of the ex ante disequilibrium in public finances.

Regardless of the circumstances or of the initiatives, the Senegalese government thus could not change much in the domain of agricultural policy. It re-oriented its choices toward the end of the 1970's, only when the explosion in the public sector deficit made it impossible to adhere to its traditional policies of intervention.

The disengagement of the state, the liberalization of controls and the shift to free market prices were the three principal points of the reforms introduced in agricultural policy following the dissolution of ONCAD, Senegal's State Agricultural Development Marketing Board, in 1980. Has the shift to market pricing, on balance, been positive or negative, in terms of its impact of economic efficiency in the agricultural sector? If the experience of the past eight years can serve as a guide, the answer would appear to be negative. Consider, for example, the following:

a. Beginning in 1981, fertilizer utilization continued to decline

b. Fertilizer and seed use reduced net peanut producer prices between 1983 and 1985:

c. In 1986, the net increase in peanut producer prices from CFA 70 to CFA 90 coincided with a reduction in cultivated peanut acreage

d. The mean level of peanut production since 1981 (at 767,000 tonnes) was less than the level of six previous seasons at the beginning of the decade (at 883,000 tonnes);

e. the lowering of peasant purchasing power -the non-indexing of producer prices in terms of the general price level - resulted in a fall in the share of peanut production which was marketed, from 41 percent in 1984 to 19.4 percent in 1985.

f. The increase in financial fees caused by deficits of SONAR, by SONACOS, and by the peanut stabilization fund forced the government to back away from competitive pricing in maximizing margins on imported rice, and peanut oil produced and locally consumed;

g. The surcharge imposed on imported rice did not result in significantly increased production and substitution of local cereals. On the contrary, it cause an even greater level of rice imports. , Millet production, which averaged 620,000 tonnes between 1981 and 1986 was only marginally higher than the 566,000 tonnes between 1975 and 1980.

h. The surcharge on locally consumed edible oils increased the profitability of parallel markets supplied by informal grain to oil producers.

III.B The Industrial Sector

Before the introduction of the new industrial policy, state industrial policy focused on two objectives: Attracting foreign investment, and state control of strategic sectors. The first objective led to ex ante insufficiency in domestic financing capacity and it also demonstrated the absence of sufficient industrial expertise in Senegal. This was especially true in light of the performance of Senegalese industries that embraced widespread policies of indigenization of employment, even though this was a popular policy with the Senegalese Socialist Party in power.

Senegal's industrial policy did result in the creation of numerous industrial enterprises and to significant job creation. At the same time, Senegal's dependence on the global economy expanded considerably, for several key reasons. Among them, one should note:

a. Startup costs and operating losses forced the government to use its own tax receipts to support these state-sponsored industrial investments;

b. Increased subsidies to inefficient domestic industrial enterprises placed added pressure on Senegalese public finances, and which in turn led to substantial increases in Senegal's levels of international public debt. These pressures were further compounded by increases in newly created public enterprises as well as those undertake by selected private enterprises targeted under the new investment code

c. The costs of goods and services 'too expensive for the protected domestic market were further stressed by a string of droughts:

e. Senegalese authorities pursued a policy in which relative prices were biased in favor of import substitution, but unfavorable to the expansion of exports in the global market

f. Operating efficiencies in Senegal's newly created industrial enterprises were reduced by restrictive hiring practices that precluded the hiring of suitably qualified labor beginnin in the 1980's:

Against these considerations, Senegalese authorities had little choice but to redefine existing industrial policy. What this new industrial policy, which began in 1986, consisted in was essentially the closing of many industrial enterprises, which attendant

adverse consequences on the level of local employment, and which in the short run coincided with a decline in aggregate economic activity. What remains to be examined is whether over the longer term, the new industrial policy would provide a positive net stimulus to operational efficiency in the national economy.

Let us consider the prospects of the new industrial policy in terms of major areas of change. One is the domain of international trade. The removal of trade barriers, which took the form of lower duty rates plus the suppression of import quotas, cannot enhance industrial competitiveness if internal domestic costs become aligned with external costs in those industries in which Senegal is trying to compete. Senegal's continuing fixed rate of exchange of the CFA to the French franc is clearly one factor which will make it difficult if not impossible for Senegal's competitive position to improve.

Second, relatively low rates of inflation in Southeast Asia continue to make Senegalese labor costs non-competitive in relation to such export-oriented free trade zones as Hong Kong, Philippines, Malaysia, and Thailand. Third, Senegal's ongoing commitment to relatively non-competitive public enterprises such as the Senegalese Water Company, or SONEES, the Senegalese National Electric Company, or SENELEC, inefficient parastatals such as Senegal's National Refining Company, or SAR, as well as numerous non-competitive banking institutions, is likely to require ongoing surcharges on other sectors of the economy. As Senegal's domestic markets are in turn opened up to greater international competition, this implies either expanded public sector subsidies to these enterprises, additional closings of these enterprises, or privatization with possible dilution of financial participation by Senegalese nationals.

If pressures on the Senegalese public sector to expand the level of subsidies to inefficient domestic enterprises are to abate, they would require a substantial increase in the competitive position of these industrial firms. To do so would require massive infusions of investment to modernize industrial units that date from the colonial era which neither the actual scale of the domestic market, which is relatively small, nor the potential for profitability in the near term, would seem to justify.

One way of enhancing the competitiveness of Senegalese industrial enterprises would be through increased flexibility in labor contracts, a move that would be politically difficult to implement. Were it possible to do so, it would involve a shift away from contracts based on the Senegalese civil servant wage scale as well as a shift to greater reliance on freely negotiated short-term contracts. While such moves might make

Senegalese enterprises more competitive in international markets, they would clearly have some contractionary effects on the level of salaried local employment.

Despite these negative risks, let us also consider the other side of reform of industrial policy. Scaling back of state intervention in the economy through supression of statutory enterprises plus the reduction of tax rates in the investment codes plus the sale of certain public enterprises can only give rise ex post to a positive saving rate and to a rebirth of investment financed by retained earnings of national firms. However, losses in tax receipts caused by the disappearance of non-competitive enterprises will not necessarily be counterbalanced by new infusions of private investment.

Contractionary pressures caused by the closing of firms can have cumulative consequences if public demand continues to be nonexpansionary. In addition, the lowering of tax rates, if it is not compensated for by other means, will undermine from the national market newly created import substitution industries. Finally, new export industries will be in all likelihood little taken by the eventuality of supporting all of the surcharges that past statutory enterprises (e.g., SAR, SOCOCIM, CSS, etc.) continue to impose on the national economy.

Senegal's policy of export promotion can provide the foundation for an export-led growth model. Its success is conditioned on the abolition of past concessionary monopolicies in the public and parapublic sector. Given the potential contraction of employment and of the loss of sovereignty of many newly created industrial enterprises, Senegalese authorities face a fundamental dilemma. On the one hand, they are not likely to have the willingness to liberalize completely the national economy while on the other hand, they simply do not have the financial capacity to subsidize *ad vitam aeternam* the potential losses of all current and future export firms.

Regardless of how we look at things, the new industrial policy does not appear to even begin a process of restructuring of industry in such a way as to establish a new and viable model of growth.[24] While new developments may complicate the ways in which Senegal's industrial policy will unfold, they are not likely to differ from the present dilemmas which policymakers now face.

111.4 Senegalese Fiscal Policy

As in the case of monetary policy, Senegal's fiscal policy has been fashioned to accommodated the macroeconomic imbalances which have shaken the national economy since the 1970's. Several basic trends in Senegal's fiscal policy may be noted, including:

a. Public consumption and investment expenditures grew at an average rate of 5.18 percent during the 1970's, up from the 3.31 percent average growth rate of the 1960's. Such public sector expansion stood in contrast to the corresponding decrease in the economy's aggregate supply.

b. Even though Senegal faced rising public sector deficits, public sector expenditures as a percentage of GDP remained relatively constant, at 12.5 percent, the same share that was allocated during the more robust 1960's.

c. Despite these adverse fiscal pressures, private sector consumption expanded during the 1970's at a 1.4 percent rate higher than it had been in the 1960's.

d. Unlike monetary policy, fiscal policy in Senegal expanded almost unabated, fueled by the energy crisis that began in 1973, and continuing with the collapse in global primary commodity prices during the 1980's.

Why did Senegalese fiscal policy continue on its expansionist course even when external debt and debt service levels placed an increasing burden on the national economy? Three factors seem to have been at work. They were:

a. Senegalese authorities were under relatively little pressure to raise domestic taxes to meet its rising public sector deficit, due largely to Senegal's continuing access on relatively favorable terms to international bilateral and multilateral donor institutions:

b. In the absence of domestic pressures for adjustment, Senegalese authorities increased the central bank discount rate only once, in 1975, after the first oil crisis, even though the real cost to Senegal was rising.

c. Senegal's 20 percent rule, which separates advances to the Treasury from the total deficit of recurrent expenditures, did not result in the substitution of private credit for rising public sector credit demand.

Against the background of Senegal's fiscal policy experience, public sector management has clearly become more restrained during the 1980's with the onset of ongoing structural adjustment initiatives. One indication of this shift has been the sharp

rise in debt service payments, from CFA 11.7 billion in 1981 to CFA 40 billion in 1986). With these rising commitments to the IMF and Senegal's other public sector creditors, the public sector faced a freeze in its material and transfer expenditures during the 1982 to 1985 period. As it did so, Senegal was also engaged in an ongoing program of price deregulation to reduce the deficit of such public sector entities as the Senegalese Price Equalization and Stabilization Board, or CPSP, as well as in the liquidation of other public sector enterprises such as SONAR, in order to stem the rise in public sector debt. Senegal also embarked on a series of tax increases beginning in 1981, notably with an increase in the Value Added Tax in 1981.

Senegal's moves to reduce the deficit on its public sector recurrent budget did not constitute in and of itself a sufficient shift in its program in structural adjustment. In fact, public sector expenditures continued to grow in the 1981 to 1987 period at a 2.6 percent average annual rate. In addition, these contractionary measures have not yet resulted in a lowering of the level of disposable income in the private sector. Thirdly, Senegal's public sector deficit averaged CFA 52.15 billion during the 1980's, in contrast to the CFA 4.3 billion average level during the 1970's.

Taken together, Senegalese current fiscal policies, as restrictive as they have been, have not yet succeeded in aligning domestic demand with domestic supply. Moreover, Senegalese fiscal policy has yet to reduce the country's external debt ratios to those prevailing during the 1960's. Indeed, Senegal's 1986 sharp drop in its current account external deficit, by CFA 70 billion, reflected for the most part a decline in import expenditures (by CFA 55 billion) due mostly to the sharp decline in global commodity prices. Worse yet, Senegal's more favorable performance in its net investment revenue account in its balance of payments reflects mostly the willingness of Senegal's foreign partners to reschedule it growing level of foreign debt rather than to any increase in the performance of this item in its balance of payments account.

Conclusion

There is no question that during the 1980's, Senegal embarked on a series of fundamental and unprecedented economic reforms. There is evidence that Senegal has in turn experienced in the period since 1986 a less imbalanced a more dynamic pattern of economic performance than in the preceding years since political independence. The question is whether the more promising current performance of Senegal's economy results exclusively from adjustment policies that the Government has adopted since the establishment of reforms in 1979.

In our view, Senegal's relative economic performance rests less on the impact of structural adjustment programs than it does on shifts in exogenous factors. The revival of agricultural output is as much attributable to improved rainfall patterns than it is to agricultural production incentives, particularly if we trace the impact of improved rainfall on the economy for the post-1984 period. What remains to be seen is whether greater economic incentives in the agricultural sector will result in positive moves to increase stocks of physical and human capital.

In terms of Senegal's reduced rates of inflation, the decreases which have taken place do not reflect in and of themselves any increase in the level of competitiveness in the national economy. The gap between domestic demand and supply is still substantial. In terms of Senegal's balance of payments, for reasons ranging from exchange rate policies to fiscal policy choices, import substitution has yet to make a difference in Senegal's overall economic performance. Moreover, Senegal's easing in its debt burden reflects as much the decline in import prices during the 1980's and the generosity of external creditors as it does any improvement in its underlying international competitiveness.

As Senegal moves into the 1990's, the reform measures which were implemented in the 1980's may yet make a significant impact on the economy's overall economic performance. What is clear is that these reforms were unable to reshape performance of the Senegalese economy during the past decade along a trajectory of significantly higher economic growth. The challenge ahead is to monitor these reform policies and to adapt them as necessary to the underlying realities of the Senegalese economy.

Endnotes

1. These findings are based on our own econometric model estimates.
2. *World Economic Outlook*, October 1985, page 63.
3. With the exception of 1978 and 1980, Senegal's import expenditures have risen continuously since 1970.-
4. National income = GDP + salaries distributed by government departments + net unilateral transfers - net income transfers of foreign factors of production.
5. CFA 14.7 billion in 1981; CFA 25.5 billion in 1982; CFA 28.6 billion in 1983; CFA 36.1 billion in 1984; CFA 35 billion in 1985.
6. 4.2 percent in 1983; 5.1 percent in 1984; 4 percent in 1985; 11.2 percent in 1986; -0.5 percent in 1987;
7. Inflation = the growth rate of the GDP price deflator.
8. According to the 1988 World Development Report of the World Bank, taxes in industrialized countries today represent 30 percent of GDP on the average.
9. Given that GDP = VAP + VAS + VAT
   VAP = added value of the primary sector
   VAS = added value of the secondary sector
   VAT = added value of the tertiary sector
   TX = prefix representing the growth rate
10. cf. MDR "Bilan global des realisations du Gouvernement en faveur du monde rural depuis 1'Independance" February 1982, page 27.
11. SONACOS's milling costs are double the costs of its counterparts in Europe. Cf., MDR "Etude sur la filiere arachidiere au Senegal" June 1988 (SOFRECO).
12. The difference between peanut and millet production prices went from 5 francs to 20 francs between 1960 and 1987.
13. L.S. Senghor, "Discours d'ouverture de la premiere session du CES"/.1974
14. In 1984 and 1985, 60 percent and 80 percent of peanut production respectively was marketed outside the official circuit.
15. 9.23 percent vs. 9.02 percent
16. In 1976 when its level - CFA 107.6 billion - was 2.4 times the multiple of its 1960 level.
17. Higher growth reflects higher rates of growth in the secondary sector rather than ncreased growth in the primary sector. Secondary growth accounted for 24 percent of output increases while primary growth accounted for only 4 percent of growth during the years when the economy was expanding in real terms.
18. Law 62 - 33, Law 72 - 43, Law 77 - 91, Law 81 - 50 Law 87 - 25

19. In 1977, Senegal exported more oil products than in 1983 (331,000 tonnes vs. 323,000 tonnes)
20. Wheat + oil + intermediary goods + 1/2 of equipment goods
21. CFA 13.9 billion in 1978, CFA 22.2 billion in 1979, CFA 42.9 billion in 1980, CFA 31.8 billion in 1981, CFA 46.5 billion in 1982, CFA 54.1 billion in 1983, CFA 48.6 billion in 1984, CFA 58.3 billion in 1985, and CFA 66.2 billion in 1986.
22. As in the United States in 1982.
23. The Central Bank can not refuse the Public Treasury any advance compatible with the 20 percent rule.
24. Mohsin S. Khan, "Macroeconomic adjustment in developing countries: a policy perspective", the *World Hank Research Observer*, Vol. 2 number 1, January 1987