Board Meeting of January 29, 1998
Statement by Juan L. Cariaga

Senegal-Country Assistance Strategy

We welcome this well-prepared Country Assistance Strategy (CAS) for Senegal which provides a coherent framework for approaching important developmental issues. Senegal is a politically stable, multiparty democracy which has played a leadership role in Africa.

In fact, there have been many recent positive developments in Senegal. The Executive Summary brings to our attention a "remarkable turnaround in the implementation of economic reforms." This includes reduced fiscal and balance of payments deficits and an average growth rate of 5% during the past three years. Social and economic indicators have also improved. This performance warrants commendation, as does the Government's overall development strategy described in its Ninth Economic and Social Development plan.

In spite of these positive indicators, however, Gross Domestic Product (GDP) per capita has remained largely unchanged since independence. Unemployment is too high and the country's many attractive features are inhibited by a number of problems, including still incomplete privatization, insufficient foreign investment and an inadequate administrative bureaucracy. In addition, some external factors have hampered progress, although their influence has lessened.

The Country Assistance Strategy which we now have for consideration provides an important framework to support Senegal's development goals. It assumes good progress in a number of areas for reform. Based on the government's commitments and implementation record, however, this seems prudent. The Government's overall development goals of poverty reduction and employment creation are shared by the Bank.

We are pleased to find that preparation of this CAS has taken previous experience and lessons learned fully into account, and that this is apparent both on the Government and Bank side.
In particular, we applaud the broad-based consultation process that was undertaken. Attachment V of the CAS provides what could be a model approach in this area. Notably, Senegalese authorities have taken a leading role in providing feedback themselves and developing input from the broader civil society, and private sector.

Cross-cutting issues such as gender, capacity building, governance and the environment are raised in the CAS to ensure they will be addressed by the Bank's proposed projects.

Moreover, we would also commend the focus on macroeconomic stability and the recently approved privatization of the electricity sector, leaving for other donors those projects which they are more suitably positioned to implement. Reforms liberalizing the petroleum sector are also important.

While we endorse this CAS and its approach, we have several comments and questions which we hope will contribute to improving the overriding objectives.

Trade Policy

With respect to trade policy, there seems to still be some room for improvement. Remaining non-tariff barriers should be removed. We also recommend that the adjustment of tariffs should tend to use the "concertina" method, i.e. to produce a uniform tariff which will allow real comparative advantages to emerge. This, in turn, will permit labor intensive growth and at the same time minimize the fiscal costs of trade policy reform.

We would appreciate additional information from staff on how the implementation of the CAS will promote competitiveness.

Targeting Poverty Interventions

Red tape and bureaucracy will continue to inhibit project effectiveness. Reform in this area requires a better and simpler method of targeting the intervention and at the same time to initiate in parallel a medium term effort reforming the education and health sectors to enhance medium term sustainability in the fight against poverty.

Perhaps staff could clarify what strategies will help to minimize these risks, especially in view of the problems that have been identified and lessons learned.

Selectivity

We welcome the attention given in the CAS to selectivity in the Bank's involvement. While there may be some concern that the Bank might have too many projects in relation to the absorptive capacity of the country, this appears to be adequately addressed. This may be especially relevant given that other large donors are also involved in as many or more projects than the Bank itself. We are pleased to note that overall, the Bank's portfolio has improved.
Staff commentary would be appreciated on whether there is a mechanism that will assist in coordinating leadership and selection on these projects.

**Privatization**

Privatization and divestiture in general are an excellent idea in that they allow a country to focus on its core developmental agenda. In that regard, we welcome the information that the President of Senegal has determined to proceed rapidly with the privatization process. In particular, privatization of the electricity sector and the liberalization of the petroleum sector are important developments in two crucial infrastructural bottlenecks to growth. The Bank’s primary focus seems to be on improving the “enabling environment” for private sector development. We are also encouraged by the establishment of an IFC office in Dakar which should provide needed support to the private sector.

However, a word of caution might be needed here. For privatization to be successful, a regulatory framework needs to be studied and prepared in advance, as well as adequate institutions to administer the framework.

In closing, we find that the CAS adequately considers possible risks and that the base case lending level is appropriate. Indeed, Senegal offers an opportunity for sustained progress. There are sufficient safeguards in place, including moving to a higher or lower lending level, to mitigate possible risks.

To conclude, I would reiterate that we agree with the overall strategy proposed and commend the authorities of Senegal and Bank management and staff for application of lessons learned, and the broad consultative process that has been accomplished.