PD-AAP-297

SENEGAL

PROGRAM ASSISTANCE APPROVAL DOCUMENT

ECONOMIC SUPPORT FUND

(685-0262)

Submitted: May 19, 1983

Authorized: July 11, 1983

June 30, 1983

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Norman Cohen

SUBJECT: Senegal - Commodity Import Program (685-0262)

I. Problem: Your approval is requested for a grant of $5.0 million from Section 531 of the Foreign Assistance Act, Economic Support Fund appropriation, to Senegal for a Commodity Import Program (CIP) (685-0262). It is planned that the total life of project funding of $5.0 million will be obligated in FY 1983.

II. Discussion:

A. Program Description and Purpose

This program will provide foreign exchange support to the Government of Senegal (GOS) to help overcome a serious balance of payments problem and is part of an IMF-led effort, coordinated with other donors, to help Senegal address critical immediate economic needs and longer-term structural problems. Disbursement of funds and evaluation of the program's success is based on certain macro and sector policy reforms as noted in section D.1., below.

Thus, up to a maximum of $2.5 million from this $5.0 million grant will be utilized under the "direct reimbursement" procedure, to reimburse the Central Bank for purchases made in the U. S. and already paid for with Senegal's foreign exchange. This reimbursement will be made retroactive to July 1, 1982 (GOS's Fiscal Year 1982/83), to permit quick disbursement of funds. This procedure has been fully reviewed by SER/COM/ALI. No direct reimbursement will be made prior to review and approval by the the USAID and AID/W for eligibility under Regulation 1 of all documentation submitted for reimbursement by Senegal's Central Bank.

Simultaneously, the standard CIP financing procedure will be implemented for the remaining $2.5 million. A representative of SER/COM/ALI spent two weeks in Senegal earlier this year looking into trade flows, the capacity of the Senegalese banking system and the private sector to handle the CIP program, and was satisfied that the program is feasible. (Note: Should the amount of direct reimbursement submitted and approved by AID/W fall short of the maximum authorized of $2.5 million, the amount not utilized would be shifted and disbursed under the CIP program.)

A second purpose of this project is to assist farmers and their families by using the local currency generated from the commodity sales and direct reimbursement to maintain, improve and upgrade rural feeder roads. This illustrative local currency program has been closely coordinated with, and is complementary to, the IBRD 5th Highway Loan now in final stages of the approval process at the World Bank.

B. Financial Summary

1. First year and life-of-project funding is $5.0 million.

2. Grant (Economic Support Funds)

--Direct Reimbursement	($2.5)
--CIP Standard Financing	($2.5)
Total	($5.0)

3. Major donor contributions: In FY 81 official aid flows were: France, $188.5 million; World Bank, $99.7; Kuwait, $69.3; Saudi Arabia, $63.9; and the United States, $35.6. No donor figures are available for FY 82 or FY 83, but are estimated to be 20% less in FY 83 than in FY 81.

C. Socio-economic, Technical, Financial and Environmental Analyses

1. The ECPR has found the macro-economic justification for the direct reimbursement and commodity import program (balance of payments suppport) satisfactory. The rates of return on the upgrading of rural roads in this project are between 12% and 36% and on maintenance much higher. The advantages to the rural population of improved communication and easier access for agricultural inputs have been established.

2. There are no human rights issues.

3. The ECPR agreed with the conclusion of the Mission that a categorical exclusion be granted because a Commodity Import Program grant is eligible to be excluded from the environmental procedures required in accordance with AID Regulation 16, Section 216(c)(ix).

D.1. Conditions Precedent and Covenants - The grant agreement will include the following conditions precedent and covenants:

Conditions Precedent -

(1) At the macro level, no disbursement of dollar funds will be made until the execution of a Standby Agreement between the GOS and the IMF for Fiscal Year 1983-84.

(2) For road maintenance improvement, no funds will be disbursed from the local currency account until the joint GOS/USAID local currency management committee is established and functioning.

(3) At the sectoral level, prior to the release of the local currency, the GOS will match the first and second advances by the World Bank to the GOS highway maintenance fund -- now planned under the World Bank 5th Highway loan.

(4) At the sectoral level no local currency will be released until the GOS establishes a plan for the implementation of its rural road maintenance and upgrading program, and identifies specifically the resources, equipment and personnel needed to carry out the program.

Covenants -

(1) A commitment in FY 83/84 to reduce by 10% by December 1984 the deficit of the Price Stabilization Fund (Caisse de Perequation and de Stabilization des Prix);

(2) A commitment by December 1984 to reduce outstanding seasonal agriculture credit through a reimbursement of 10 billion CFA to the Central Bank;

(3) To select targets from the IMF 1983-1984 Standby Agreement which are relevant to the agricultural sector for performance monitoring;

(4) A commitment to give priority to maintenance over the construction of new roads whether primary, secondary, or feeder roads for the next three years; and

(5) The local currency management committee will consider the technical and economic studies prior to selecting road segments for maintenance or upgrading.

D.2. Implementation Plan - The ECPR found the Implementation plan for both the dollar-financed direct reimbursement and the standard financing of commodity import programs as well as the local currency activity satisfactory and reasonable.

D.3. Major implementing Agencies will be the Ministry of Equipment (Public Works Department), the Planning Ministry and the Finance Ministry.

E. Section 611(a) requirements for the dollar portion have been met by the establishment of a feasible system for the CIP program and direct reimbursement for the dollar expenditures. On the local currency side a joint GOS/USAID local currency management committee will be established which will use criteria based on 611(a) requirements.

F. Program Implementation - John Balis, Mission Agriculture Development Officer, will be responsible for management of the program, Barnabas Moseley, the Mission engineer, will supervise the local currency activity in USAID/Senegal, and Rose Marie Depp, Project Officer for Senegal (AFR/PD/SWAP), will be the responsible officer in AID/Washington.

G. Other Considerations - While this PAAD involves ESF funding, it should be noted that ,in addition to the balance of payments support, the local currency generated will be used to maintain and upgrade rural roads, thus providing direct benefit to farmers living in the areas served by these roads.

III. Waivers: The draft waiver contained in Annex J of the PAAD requests that the source/origin requirement for shipping be waived from Code 000 (United States only) to Code 899 (Free World). The waiver request is now being reviewed by SER/COM and will be considered for approval after this grant is approved.

IV. Justification to Congress: This project was listed in the 1982 CP; therefore, no Congressional Notification is required.

V. Clearances: At both the Issues and ECPR meetings, representatives of all relevant Africa Bureau offices, SER/COM and PPC offices were present and concurred in the conclusion of those meetings to recommend authorization of this PAAD.

VI. Recommendation: That you sign the attached authorization and thereby approve funding of $5.0 million.

VII. Attachments:

1. Program Authorization
2. PAAD
3. Code 899 Shipping Waiver

VIII. Clearances:
DAA/AFR/WCA: JJohnson
AFR/PD/SWAP:GSlocum
AFR/TR/SDP: GThompson (draft)
AFP/TR/ENG: BDonnelly (draft)
SER/COM/ALI: PHagan (draft)
AFR/SWA: FGilbert
AFR/SWA: NMariani (draft)
AAA/AFR/DP: HJohnson
AFR/DP:SErves (draft)
PPC/PDPR: JWolgin (subs)
GC/AFR: LDeSoto (draft)

USAID/Senegal:VBrown/AFR/PD/SWAP:RMDepp:6/21/83:0422M:632-8242

PROGRAM AUTHORIZATION

Name of Country: Senegal

Name of Project: Commodity Import Program (CIP)

Number of Project: 685-0262

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961 as amended, I hereby authorize a Commodity Import Program for the Government of Senegal (GOS) involving planned obligation in an amount not to exceed $5.0 million in Economic Support Funds over a one year period from the date of authorization to provide foreign exchange to help overcome a serious balance of payments problem, and to use the local currency generated under this program to assist farmers and families by maintaining, improving and upgrading rural feeder roads.

2. Up to $2.5 million from this $5.0 million will be utilized under the "Direct Reimbursement" procedure to permit rapid disbursement of funds. Simultaneously, the standard financing CIP program will be implemented for the remaining $2.5 million. (Any funds not used under the "Direct Reimbursement" procedure will be added to the standard financing portion of the Program.)

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

a. Source and Origin of Goods and Services - Except for ocean shipping, goods and services financed by A. I. D. under this project shall have their source and origin in the United States (Code 000). Ocean shipping financed by A.I.D. under the Program shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent - Apart from the standard Conditions Precedent (CPs) normally contained in program grant agreements, the Agreement shall contain CPs to disbursement in substance as follows:

1. No disbursement of dollar funds will be made until execution of a Standby Agreement between the International Monetary Fund (IMF) and the Government of Senegal (GOS) for Fiscal Year 1983-84.

2. No disbursement of local currency (counterpart funds) will be made until the joint GOS/USAID management committee is established and functioning.

3. No disbursement of local currency (counterpart funds) will be made until the GOS's matching contribution to the World Bank's contribution to its Road Maintenance Fund for the summer and fall of 1983 has been deposited as provided for under the Fifth World Bank Loan.

4. No disbursements of local currency (counterpart funds) will be made until the GOS Public Works department has prepared a plan for the implementation of the rural road maintenance, improvement and upgrading program, including the availability of resources, equipment and personnel, plus a detailed description of the equipment to be used.

c. Covenants - The agreement shall set forth undertakings provided in substance as follows, except as AID may otherwise agree in writing:

1. The GOS covenants to reduce by 10% the deficit of the Price Equalization and Stablilizaton Fund (Caisse de Perequation et de Stabilisation des Prix).

2. The GOS covenants to reduce outstanding seasonal agricultural credit through a reimbursement of 10 billion CFA francs (equivalent to $28 million) to the Central Bank.

3. The GOS and AID covenant to select targets from the IMF 1984-1984 Standby Agreement which are relevant to the agricultural sector for performance monitoring.

4. The GOS covenants to regularize financing of the road maintenance fund so that there are sufficient funds to maintain the road network's maintenance budget (including rural roads) over the next three years, and give priority to maintenance over the building of new roads.

5. The GOS and AID covenant to assure that the joint management committee will consider the technical and economic studies prior to selecting road segments for maintenance and upgrading.

Date: July 11, 1983

Alexander R Love
Assistant Administrator for ~~Africa~~

Clearances as shown on Action Memorandum

USAID/Senegal:VBrown:6/17/83:632-8242:0431M

PAAD Team

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Team Leader, Project Development Officer

Vincent R. Brown, DEVRES
Technical Coordinator and Principal Drafter

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Peter J. Hagan, AID/W
Office of Commodity Management

AID 1120-1 (8-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 685-0262

2. COUNTRY: Senegal

3. CATEGORY: Commodity Financing - Direct Reimbursement and Standard Procedures

4. DATE:

5. TO: F.S. Ruddy, Assistant Administrator, Bureau of Africa

6. OYB CHANGE NO.:

7. FROM: David Shear, Director USAID/Senegal

8. OYB INCREASE:

TO BE TAKEN FROM: Economic Support Fund

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 5,000,000

10. APPROPRIATION - ALLOTMENT:

11. TYPE FUNDING: [ ] LOAN [X] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: July 1982 - Sept.84

14. TRANSACTION ELIGIBILITY DATE: July 1982

15. COMMODITIES FINANCED

Commodities declared eligible under the AID Commodity Eligibility Listing will be eligible for A.I.D. financing.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	$4,000,000	U.S.:	$4,000,000
Limited F.W.:		Industrialized Countries:	$1,000,000
Free World:	$1,000,000 (See para. 2 below)	Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

This grant represents U.S. Assistance to the Government of Senegal to make available foreign exchange in order to help overcome a serious balance of payments problem. It is part of a joint donor effort led by the IMF and IBRD, along with other donors, to help Senegal face up to critical temporary and structural economic problems. The proposed grant will provide foreign exchange for essential private sector imports, direct reimbursement and related technical services to be agreed upon by the GOS and AID.

Local currency generated by use of this grant will be used to assist the GOS in maintaining its feeder roads network which is critical to agricultural development. While the main thrust is in routine and periodic rural road maintenance, some upgrading of existing feeder roads will be done in specific support of joint GOS/USAID rural development projects.

19. CLEARANCES	DATE
REG/DP	
REG/GC	
AA/PC	
A/CONT	
AA/MR	
AA/DFPE	

20. ACTION

[ ] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE DATE

TITLE

CLASSIFICATION:

11

PAAD - FACESHEET, Cont. (685-0262)

A grant to the Government of Senegal is hereby authorized in the amount of $5,000,000 for financing private sector imports direct reimbursement and related technical services, subject to the following terms and conditions:

1. Procurement of goods, insurance and technical services will be restricted to AID Geographic Code 000 (U.S. only) source and origin.

2. Funds from this grant may be used to finance marine transportation services from Code 899 countries, as justified in Annex J, Ocean Freight Waiver Request.

3. Technical assistance may include, but not be limited to, installation or erection of AID financed equipment or the training of personnel in the maintenance, operation and use of the equipment, not in excess of 25 percent of a particular total purchase contract. Regulation I will not be applicable to the procurement of technical assistance services.

4. Commodities procured under this grant may not used in the production of sugar products, palm oil or citrus products.

5. The minimum transaction value shall be established at $10,000.

6. USAID/Senegal is given the authority to sign and issue Implementation Letters and Commodity Procurement Instructions for this grant, and to approve/disapprove all transactions to be financed under this grant.

Two procurement and financing procedures will be implemented simultaneously under this grant:

1. The direct reimbursement procedure, for a maximum of $2.5 million, will cover purchases already paid for with Senegal's FX, retroactive to July 1, 1982 (GOS's FY83), to allow for quick disbursement of funds for balance-of-payments deficit.

2. Simultaneously, the standard financing procedure will be implemented, according to the schedule outlined in this PAAD.

SENEGAL

PROGRAM ASSISTANCE APPROVAL DOCUMENT

ECONOMIC SUPPORT FUND (685-0262)

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ABBREVIATIONS AND ACRONYMS

AID	Agency for International Development
BIFAD	Board for International Food and Agriculture Development
BCEAO	Banque Centrale pour les Etats de l'Afrique de l'Ouest (Central Bank for West African States)
BNDS	Banque Nationale pour le Développement du Sénégal (Senegal National Development Bank)
BOP	Balance of Payments
BPP	Bureau des Pistes de Production (Office of Feeder Road Maintenance)
CAA	Autonomous Sinking Fund
CCCE	Caisse Centrale de Cooperation Economique (French AID fund)
CDSS	Country Development Strategy Statement
CFAF	Monetary unit of Senegal
CIP	Commodity Import Program
CNCAS	Caisse Nationale de Credit Agricole (National Agriculture Credit Bank of Senegal)
CPI	Commodity Procurement Instructions
CPSP	Caisse de Pérequation et de Stabilisation des Prix (Price Equalization and Stabilization Fund)
EDF	European Development Fund
EFF	Extended Fund Facility
EIB	European Investment Bank
ESF	Economic Support Fund
FAO	Food and Agriculture Organization (UN)
FR	Financing Request
GDP	Gross Domestic Product
GNP	Gross National Product
GOS	Government of Senegal
IBRD	International Bank for Reconstruction and Development (World Bank)

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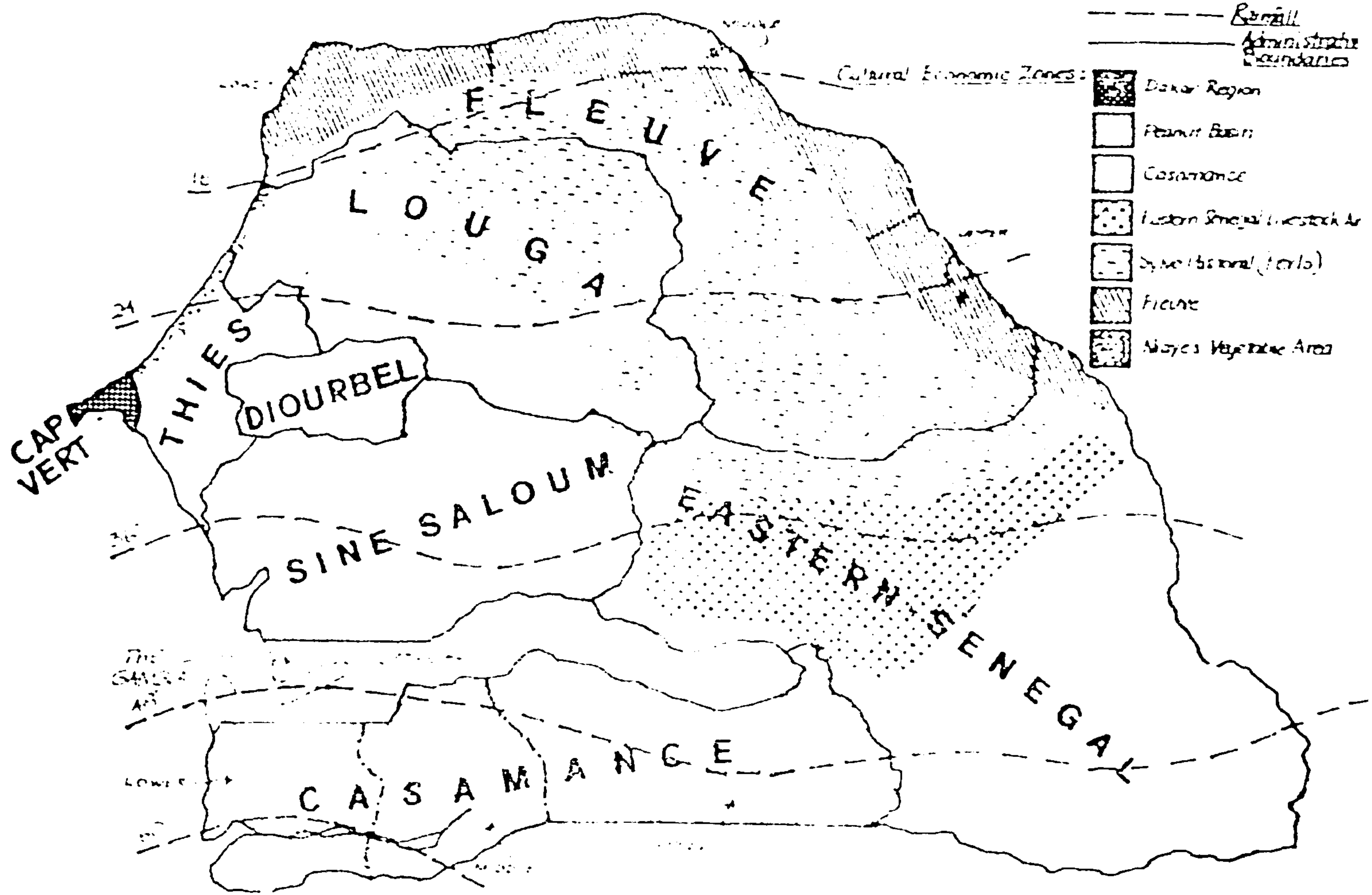
ICS	Industries Chimiques du Senegal (Industrial Chemicals of Senegal)
IFC	International Finance Corporation
IFDC	International Fertilizer Development Center
IMF	International Monetary Fund
ISRA	Institut Sénégalais de Recherches Agricoles (Senegalese Institute for Agriculture Research)
L/C	Letter of Credit
l/c	local currency
LOP	Life of Project
ME	Ministry of Equipment
MOC	Ministry of Commerce and Industry
MOP	Minister of Plan
MRD	Minister of Rural Development
NASA	National Aeronautics and Space Administration
ODA	Official Development Assistance
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
OMVS	Organisation pour la Mise en Valeur áu Fleuve Senegal (Organization for the Development of the Senegal River Basin)
ONCAD	Office National De Cooperation et d'Assistance au Developpement (National Office for Cooperation and Development Assistance)
OPEC	Organization of Petroleum Exporting Countries
p.a.	per annum
PAAD	Program Assistance Approval Document
PID	Project Identification Document
RDA	Regional Development Agencies
SAED	Societé d'Amenagement et d'Exploitation des Terres au Delta au Fleuve Sénégal (Organization for the Improvement and Development of the Delta Lands of the Senegal River)

SAL	Structural Adjustment Loan
SDR	Special Drawing Rights
SIES	Société Industrielle des Engrais du Sénégal (Industrial Fertilizer Company of Senegal)(a RDA)
SODEFITEX	Société de Développement des Fibres Textiles (Textile Fiber Development Organization)(a RDA)
SODESP	Société de Développement de l'Elevage dans la Zone Sylvo-Pastorale (Sylvo Pastoral Livestock Development Organization)(a RDA)
SODEVA	Société de Développement et de Vulgarisation Agricole (Agriculture Extension and Development Organization) (a RDA)
SOMIVAC	Société pour la Mise en Valeur de la Casamance (Casamance Development Organization)
SSEPC	Societe Senegalaise des Engrais et Produits Chimiques (Senegalese Fertilizer and Chemical Products Company)
STABEX	Export Revenue Stabilization Arrangement
STN	Société de Terres Neuves (Northern Coast-Market Gardening Organization)
UN	United Nations
WAMU	West African Monetary Union

SENEGAL

Administrative Boundaries - Cultural-Economic Zones - Rainfall



I. EXECUTIVE SUMMARY AND RECOMMENDATION

A. The Request

The Government of Senegal (GOS) has requested program assistance in the amount of $5.0 million to help meet its immediate balance of payments requirements, and requested that the local currency (l/c) generated by the grant be utilized for a program of rural road maintenance and upgrading of selected rural roads in areas where the GOS and the USAID are undertaking joint development activities. Maintenance of Senegal's feeder road network in a satisfactory condition is a sine qua non to the execution of its Rural Development program. $2.5 million of the $5.0 million is for a general Commodity Import program (CIP), and $2.5 million is to finance Direct Reimbursement for imports from the United States to Senegal which were made since July 1, 1982 (Senegal's fiscal year 1982/83). The $5.0 million equivalent generated in local currency will be used for the rural road maintenance and improvement activity mentioned above.

B. Background

Senegal is a moderate, nonaligned democracy of six million people with a high dependency ratio (slightly below 1:1) reflecting a very young population. With a population growth rate at 2.8%, and a per capita income in 1980 of $450, it falls within the UN category of low income countries. Geographically and strategically, it is the closest of the African States to the Americas with the best harbor, airport, communications and road network in West Africa. Its mature, centrist approach to international affairs has earned it the esteem of many Third World, Arab and Western nations including the United States, giving it an influence in international forums far beyond its size.

(Section VIII provides more information on the overall political scene, the GOS economic constraints, and the U.S. assistance strategy for Senegal.)

C. Unfinanced Balance of Payments Deficit

Senegal's current account deficit is projected to be $354 million in 1983. To offset this deficit the GOS is hoping for some $234 million in IMF drawings; Arab and French exceptional support and other net official capital inflows. This leaves an unfinanced current account deficit of $119.9 million. Therefore, a U.S. contribution of $17.25 million ($5 million (this PAAD), $4.25 million SDF,[1] and $8 million Title III) would make a significant contribution to the balance of payments, representing 14% of the as yet unfinanced portion of the current account deficit. The outlook for 1984 is even more difficult since the flows of assistance from some of the major donors are likely to be less favorable. Therefore, the need for this $5.0 million in program assistance is urgent. Given Senegal's heavy debt servicing burden, the fact that the funds provided by AID under this PAAD will be a grant, is particularly valuable. (Section IV.3(e), "Macroeconomic Justification," describes this situation in detail.)[2]

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1 The full SDF PAAD is for $5.0 million, of which $0.75 million has been set aside for two Technical Assistance studies, so the amount of direct balance of payments support is $4.25 million.

2 $1 = 350 CFAF.

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D. Other Donor Support

In addition to its own self-help efforts, Senegal has sought and received encouraging support from multilateral and bilateral donors (including the IMF, World Bank, EEC, UN, France, Arab countries, United States, and Germany.) Donors have been forthcoming in part because the assistance has been provided within the framework of Senegal's Economic and Financial Reform Plan ("Plan de Redressement") which was introduced by the GOS in December 1979. (Donor coordination meetings, sponsored by the Senegalese government and the World Bank, have provided a forum for coordinating and facilitating donor assistance.) The USAID has been a full member in these policy consultations with the GOS and has played a supportive role in helping guide the Government's economic policy formulation and execution.

Donors will be focusing on Senegal's self-help efforts in the coming months, and the degree of support by the major donors will be linked to the Government's performance.

E. Program Assistance Description

The USAID has been asked to expand its help from project assistance and PL 480 food products to include program assistance. Program assistance is a form of help which can be used to meet urgent balance of payments needs by providing essential imports (in this case a standard financing program of general commodities of $2.5 million, and direct reimbursement up to $2.5 million for commodities imported from the U.S. during GOS fiscal year 1982/83.) Informal talks with members of the local business community who import from the United States have been very positive and no difficulty is envisaged in importing the commodities from the U.S. Both methods are expected to provide prompt balance of payments relief in late 1983 and early 1984.

These two methods of assistance will generate the equivalent of $5.0 million in CFA francs (CFAF). The government has asked that these funds be used for rural road maintenance and improvement to be carried out concurrently with the World Bank Fifth Highway loan which will be exclusively for maintenance of Sengal's road network. The two programs have been coordinated so that they are complimentary and mutually reinforcing. Rates of return on the roads to be improved run from 12% to over 30% with returns on straight maintenance much higher. Should there be any additional foreign exchange costs incurred by the increased activity (e.g. for additional road working equipment), funds are available under the loan now being negotiated with the World Bank and from German sources. This is not expected to be a major requirement since private contractors will be used for 25% or more of the work.

F. Program Assistance Benefits

Senegal will benefit from the program assistance provided under this PAAD in the following way:

- Commodities needed by the Senegalese economy and financed by the U.S. under this general import program of $2.5 million will be brought in

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by the local business community thus saving the GOS foreign exchange and generating an equivalent amount in local currency needed to finance the rural road maintenance program mentioned above.

- Foreign exchange ($2.5 million in U.S. dollars[1]) will be provided under the direct reimbursement procedure described above, and will generate an equivalent amount of local currency.

- Local currency generated will go to meet a tight GOS budgetary situation and will assure that adequate funds are available over the next two years for maintenance of the entire classified rural road network of 728.5 kilometers. The activity will also provide the funds for the upgrading of 353.5 kilometers of existing feeder roads that directly relate to rural development activities undertaken jointly with the GOS. Close coordination with the World Bank in the development of this project assures its complimentarity with the Fifth Highway Loan now in its final stages of negotiation.

To help assure that the total road network will have adequate maintenance funds, the Grant Agreement will contain a condition precedent that no money will be released from the Special local currency Account for this activity until the GOS has deposited its share (50%) of the Road Fund. Actual payment is due by the end of August 1983. The Rural Public Roads department will be required to submit, prior to disbursement of the local currency funds, an annual plan and budget acceptable to the USAID with due attention to how the Government plans to meet the equipment needs. In addition, a covenant will be included under which the Goverment undertakes to "make all reasonable efforts to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network in a satisfactory condition, and that these budgetary provisions, over the next few years, will take priority over the building of new roads be they primary, secondary or feeder."

The economic evaluation of this activity performed by an economist and engineer from Louis Berger International states: "The project is economically, technically and organizationally sound. It will permit the full realization of development projects, allowing corresponding increases in agriculture production. Improved and properly maintained roads will end the isolation of villages otherwise cut off from markets, services, supplies, etc., especially during the rainy season. Vehicle operation costs will be reduced. The need for large investments for infrastructure renewal will be delayed and the cost reduced." (See Section V and Annex G for a detailed description of this activity.)

G. Recommendations

USAID/Senegal recommends approval by the Assistant Administrator for Africa of this request for program assistance from Economic Support Funds in the form of a grant of $5.0 million. Of this amount $2.5 million will be direct reimbursement of commodities imported from the U.S. during Senegalese fiscal year 1982/83, and $2.5 million will be for a commodity import program with standard financing.

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1 For items imported during GOS fiscal year (1982/83) (July 1, 1982 to June 30, 1983).

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II. AID/W INSTRUCTIONS AND QUESTIONS

Instructions for preparation of this ESF PAAD were received by the USAID in State 257886 (Section 6 to 8) dated 3/3/83, and State 040289, dated 2/11/83. Both telegrams are reproduced in Annexes O and P for ready reference.

The USAID in Dakar 5345 dated 3/8/83 selected Option Number 2 which proposed submission to AID/W of two PAAD's of $5.0 million each. One is to use ESF-financing with general commodity imports (this PAAD) and the other is to use Sahel Development Funds to finance a Fertilizer Commodity Import Program (CIP). Local currency (or counterpart) generated in both cases would be placed in a special counterpart account at the Central Bank and would be used to support Senegal's long-term development program for specific activities approved by the joint GOS/USAID local currency Management Committee set up for this purpose. There follows a list of points and questions raised in the two telegrams from Washington with appropriate comment.

A. AID/W: The $10.0 million in SDF and ESF funds ($5.0 million each) would be to provide immediate balance of payments relief and to achieve support for key reforms being considered during next year. Local currency generations would result in a pool of resources to support activities requiring local currency financing.

Response: Senegal's balance of payments deficit is critical, and the GOS, IMF, and World Bank have all suggested to the USAID that a larger share of its assistance to Senegal be in the form of program assistance (or nonproject assistance as it is sometimes called). This assistance will also support key reforms considered as part of the Government's Economic and Financial Reform Plan ("Plan de Redressement") and its agreements with the IMF and the World Bank. The balance of payments relief provided by the general commodity imports and direct reimbursement of past imports from the U.S., plus the local currency generated under this PAAD will be used to support Senegal's long-term development goals and encourage specific policy reforms at the sectoral level.

B. AID/W: A macroeconomic analysis is required for both programs justifying the need for $10.0 million in foreign exchange assistance, placing the reforms in the context of the IMF/World Bank/GOS program, and summarizing the objectives of the plan.

Response: The macroeconomic justification (See Section IV below) shows that the estimated unfinanced current account deficit in 1983 will be $119.9 million after deductions from all sources. Therefore, the total of U.S. program assistance of $17.25 million, including PL 480 Title III, will constitute 14% of the as yet unfinanced portion and is very much needed. This amount should assist the USAID in continuing its positive influence on the GOS in carrying out its Economic and Financial Reform Plan and encouraging it to live up to its commitments to the IMF and the World Bank.

C. AID/W: The ESF activity as approved for development of the PAAD would be a $5.0 million life-of-project activity. A General Commodity Import program would be financed, and Eligible commodities would be established by AID Handbook 15 Appendix B. A cautionary note relates to the need to identify commodities for which disbursements can be quickly made, thereby producing immediate balance of payments relief.

Response: The ESF program is divided into two $2.5 million segments. In order to provide immediate balance of payments relief it is proposed to use the direct reimbursement procedure for up to $2.5 million for imports from the United States made during GOS fiscal year 1982/83 (i.e. 6/30/82 to 7/1/83). Government and local importers are very positive about the possibilities of obtaining the appropriate documentation from the Central Bank here, and the suppliers' certificates from the U.S. suppliers.

Major local importers of commodities from the U.S. were contacted and they were optimistic about the prompt use of the $2.5 million for general imports. In 1981, imports were $42 million of which $27 million or 63% was for food products from the United States. The remaining $17.0 million offers an adequate margin for the quick use of the funds made available under the general import program.

D. AID/W: It must be demonstrated that the local currency activities selected are exclusively financed with local currency. The activities need not be described in detail; however, the mechanism for the review of the specific proposals, and the establishment of a segrated account must be described.

Response: A joint GOS/USAID local currency (counterpart) Management Committee will approve the disbursements from the special local currency account based on specific activity proposals from the technical ministries concerned. The procedure and criteria for l/c project approvals is summarized in Section V.A. and described in detail in Annex G. This procedure will assure that activities approved by the Joint Committee will meet basic AID criteria for project selection. Even though the counterpart funds belong to the Government and AID environmental standards are not obligatory, copies of the AID Environmental Handbook will be made available to the members of the Joint Committee and the Committee Secretariat. Under this PAAD only one local currency activity is proposed -- Rural Road Maintenance and Improvement. (See Section III. E and Annex G for a detailed description). To the extent that any additional road working equipment is needed, it will be financed from the World Bank Fifth Highway Loan now in final stages of negotiation. This loan is exclusively for road maintenance. The GOS/World Bank project has been coordinated with this activity. Equipment already exists at the regional level and 25% of the work is done via private contractors.

E. AID/W: Mission should relate ESF proposal to entire reform package to be subject of negotiation with the Government of Senegal. Negotiations should not be compartmentalized by assistance instrument.

Response: USAID agrees completely with this point. Negotiations at both the technical and ministerial level refer to the entire program assistance package for 1983 of nonproject assistance: ESF (this PAAD) $5.0 million; SDF (Agriculture Development Assistance), $5.0 million; and Title III, $8.0 million. Total $18.0 million.[1]

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1 While total assistance is $18.0 million, from a balance of payments standpoint the figure of $17.25 is used since $0.75 million of the SDF grant is earmarked to finance two technical assistance projects which are not considered direct balance of payments support.

III. PROGRAM ASSISTANCE DESCRIPTION

The Government of Senegal (GOS) has requested program assistance in the amount of $5.0 million to help meet its immediate balance of payments requirements, and requested that the local currency generated by the grant be utilized for a program of rural road maintenance and upgrading of selected rural roads in areas where the GOS and the USAID are undertaking joint development activities. Maintenance of Senegal's feeder road network in a satisfactory condition is a sine qua non to the execution of its Rural Development program. $2.5 million of the $5.0 million is for a general Commodity Import program (CIP), and $2.5 million is to finance Direct Reimbursement for imports from the United States to Senegal which were made since July 1, 1982 (Senegal's fiscal year 1982/83). The $5.0 million equivalent generated in local currency will be used for the rural road maintenance and improvement activity mentioned above.

(Section VIII provides more information on the overall political scene, the GOS economic constraints, and the U.S. assistance strategy for Senegal.)

A. Background

Senegal is a moderate, nonaligned democracy of six million people with a high dependency ratio (slightly below 1:1) reflecting a very young population. With a population growth rate at 2.8%, and a per capita income in 1980 of $450, it falls within the UN category of low income countries. Geographically and strategically, it is the closest of the African States to the Americas with the best harbor, airport, communications, and road network in West Africa. Its mature, centrist approach to international affairs has earned it the esteem of many Third World, Arab and Western nations, including the United States, giving it an influence in international forums far beyond its size.

Agriculture, including fishing, is the prime sector of the economy. While agriculture only accounts for 30% of Gross Domestic Product (GDP), 70% of Senegal's population lives in the rural areas and produces more than half of the total export earnings (mainly groundnuts).

While literacy of the adult population is around 10%, Senegal has a broad ever-deepening nucleus of well-trained civil servants and technicians which gives the country substantial capacity to utilize economic and technical assistance and to put into effect development programs.

Senegal has a modest but active private sector of encouraging potential, and has been developing its tourism and marketing of winter vegetables in Europe. It has made substantial efforts in recent years to develop its major mineral resource--phosphate. In 1984, a privately run, world-class fertilizer facility will come on stream using the locally-mined phosphate, and mixing it with imported sulfur to make Diammonium Phosphate (DAP) and Triple Super Phosphate (TSP). While the complex is mainl, for export, part of the production will be sold on the domestic market.

As pointed out in the Country Development Strategy Statement (CDSS) for FY 1985, Senegal is in substantial balance of payments difficulties. Senegal's current account deficit is projected to be $354 million in 1983. To offset

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this deficit the GOS is hoping for some $234 million in IMF drawings, Arab and French exceptional support and other net official capital inflows. This leaves an unfinanced current account deficit of $119.9 million. In addition, in 1984, the situation is likely to worsen, since interest payments, put off in the 1981/82 debt rescheduling exercises, will begin to come due. Senegal's foreign exchange reserves are almost nonexistent. While they rose from $7.6 million (3 day supply of imports) in 1981 to $8.6 million in 1982, clearly Senegal cannot rely on its reserves to finance a deficit of this size. While the West African Monetary Union (WAMU) allows Senegal to continue to function as long as it has CFA francs (CFAF) to buy foreign exchange in French foreign exchange markets, in practice WAMU has penalties for exceeding overdraft ceilings and credit restrictions which limit the use of this facility. Net foreign capital inflows in recent years have been modest and insufficient to offset the BOP gap. <u>Therefore, balance of payments' support is vital.</u>

USAID's proposed package of $17.25 million in 1983 in program support (SDF, $4.25 million;[1] ESF, $5.0 million; and Title III, $8.0 million) is 14% of the unfinanced portion of the projected 1983 balance of payments deficit of $119.9 million, a significant amount from the Government of Senegal's (GOS) point of view. The grant terms of the program aid are also of major importance due to Senegal's current debt problems. The GOS has had some difficulty meeting the targets set out in the IMF Standby Agreement for 1982/83. Neither the IMF nor the World Bank have released the funds remaining under the Standby arrangement and the Structural Adjustment Loan respectively. The IMF and GOS have decided that the 1982/83 standby cannot be completed as scheduled and are currently working out a new agreement for the GOS's 1983/84 fiscal year which begins July 1, 1983. (The above points are discussed in more detail in Section IIIC below and in Section IV, Macroeconomic Justification.)

In addition to its own self-help efforts, Senegal has sought and received encouraging support from multilateral and bilateral donors (including the IMF, World Bank, EEC, UN, France, Arab countries, United States, and Germany.) Donors have been forthcoming in part because the assistance has been provided within the framework of Senegal's Economic and Financial Reform Program ("Plan de Redressement") which was introduced by the GOS in December 1979. Donor coordination meetings, sponsored by the Senegalese Government and the World Bank, have provided a forum for coordinating and facilitating donor assistance. The USAID has been a full member in these policy consultations by the GOS and has played a supportive role in helping guide the Government's economic policy formulation and execution.

It is within the context of this policy dialogue that the USAID has been asked to expand its help from project assistance and PL 480 Title III to include program assistance. This is a form of aid which is most helpful in meeting urgent balance of payments needs and in providing local currency (l/c) (counterpart funds) required to carry out essential programs in the agriculture/rural sector--activities which are basic to implementation of Senegal's Reform Plan and achieving its long-term development goals.

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1 $0.75 million of the $5.0 million of SDF funds will be used for two technical assistance studies, and is not considered direct balance of payments support.

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B. Program Benefits Summary

1. Senegal benefits from the program assistance provided under this PAAD in the following ways:

a. Balance of payments support will be provided in two ways. Commodities, needed by the Senegalese economy and financed by USAID under the general import program of $2.5 million, will be brought in by the local business community thus saving the GOS foreign exchange. In addition, foreign exchange, up to $2.5 million, will be provided under the Direct Reimbursement procedures for imports from the U.S. in 1982/83.

b. Local currency. Both the general import and the direct reimbursement programs taken together will generate counterpart in the equivalent of $5.0 million. The local currency so generated will be utilized for a two year program of rural road maintenance (728.5 km.), and upgrading of rural roads (353.5 km.) in areas where the GOS and the USAID have joint development activities. Maintenance of the nation's feeder road system is essential to progress in the rural areas of the economy.

2. USAID benefits from the program assistance provided under this PAAD in the following ways:

a. Macroeconomic policy level dialogue as it continues between the GOS and USAID will become more meaningful with the provision of this $5.0 million in balance of payments support, especially when taken in conjunction with the other forms of program assistance (SDF Agriculture Development Assistance PAAD, $4.25 million[1] and Title III program, $8.0 million) totaling $17.25 million or 14% of the unfinanced portion of the balance of payments gap. The USAID supports GOS efforts to carry out its Economic and Financial Reform plan ("Plan de Redressement") as well as the need for the GOS to live up to its commitments to the IMF.

b. Sectoral level influence is important since the $5.0 million in local currency will provide resources that otherwise would not have been available. This aspect is relevant in the case of rural roads. In the past several years, the Government has been unable to finance adequately the maintenance of its rural road network. This local currency activity will represent over 8% of the rural road maintenance budget and 75% of the funds allocated for improvement of existing feeder roads. A major policy point with the Government will be the necessity to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network (including rural roads) in a satisfactory condition, and that these budgetary provisions, over the next few years, take priority over the building of new roads be they primary, secondary, or feeder. (A covenant is planned for the Grant Agreement on the above policy point). In addition, to help assure that the Government's self-help efforts are forthcoming, a condition precedent to disbursement of the local currency will be its deposit in the Road Maintenance Fund of its matching contribution to that of the World Bank. (Note: The loan agreement for the new Fifth

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1 Since $0.75 million of the $5.0 million SDF PAAD is for two technical assistance studies which are not considered as direct balance of payments support, $4.25 million is shown as the SDF amount.

Highway Loan with the IBRD, now in the final stages of negotiation, calls for a deposit of $400 million CFAF by the World Bank in the Road Maintenance Fund this summer, with the GOS's matching contribution due in late August, early September 1983.)

Other management requirements in advance of disbursement will include an annual budget and work plan including the sources of equipment for the program. This form of assistance provides entry into the planning and budget aspects of an essential activity which would otherwise not be considered appropriate. (Section E. below and Section V, "Use of Local Currency", describe the activity and its benefits to the Senegalese economy in more detail.

C. Balance of Payments Support and Related Reforms

1. Conclusions

Section IV, "Macroeconomic Justification," analyzes the current economic crisis, corrective measures which have been introduced, donor support for these corrective measures, and the prospects for economic recovery.

a. The combined impact of adverse external factors (e.g. drought, unfavorable world prices for major exports, increases in prices of key imports) and inappropriate government policies (e.g. consumer subsidies, extensive foreign borrowing, low interest rates, low prices for domestically produced agriculture products) led to the emergence of a serious economic crisis in 1978.

b. The economic crisis continues to persist despite concerted efforts on the part of the GOS to take corrective action due to certain structural factors such as: over-dependence on too few exports, reliance on imports to satisfy currency consumption needs, declining world prices for peanut oil as acceptable and less expensive substitutes emerge (e.g. sunflower, soybean, and rapeseed oil), the low return on investment, and high labor costs in the modern sector.

c. The GOS, since the introduction of its Economic and Financial Reform Plan in December 1979, has made impressive strides in implementing corrective action particularly with respect to: containment in the rate of growth of current expenditures in the government budget, the introduction of a more restrictive credit policy, the adoption of a new foreign trade policy, the progressive decontrol of prices and the increase of prices paid to domestic producers of agriculture products.

d. In the course of efforts to correct its economic difficulties, Senegal has benefited from considerable external support from the IMF, World Bank and Arab and OECD donors. Figures for 1981 would seem to indicate that the largest donor group of concessional assistance consist of OECD countries providing $301.4 million, then Arab donors providing $152.5 million and last multilateral donors providing $70.3 million.

e. Preliminary estimates show a marked decline in external support for 1982 and 1983 due to: (1) a loss of eligibility for export stabilization compensation from the EEC and IMF (2) a tighter liquidity situation in leading Arab donor countries as oil prices and world demand continue to weaken (3) increasing economic difficulties in France, Senegal's leading donor.

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f. Prospects for economic recovery will depend heavily on GOS political will and determination to proceed energetically with its medium-term program for economic and financial reform. However, it is clear that: (1) economic stabilization is likely to take considerably more time than originally anticipated (2) stabilization remains the most urgent task facing Senegal today; and (3) given the necessary pace of adjustment, substantial external assistance is both warranted and required over the next three to four years.

g. The GOS, in recognition of the importance of pursuing economic adjustment, is in the process of negotiating a new 1983/84 Standby arrangement with the IMF. It is expected that agreement will be reached in July or August with presentation to the IMF Executive Board in September.

2. Background

On the balance of payments side:

- the economy has tended to be increasingly dependent on imports to satisfy current consumption needs which have no offsetting impact through an increase in domestic productive capacity;

- the external terms of trade for Senegal have deteriorated since 1975 more quickly than on average for oil importing developing countries as a group and it would appear that this tendency has accelerated since 1982;

- the overall balance of payments deficit continues to increase despite recent improvements in the trade balance due to a decline in capital inflows from $208 million in 1980 to a projected $138 million in 1984;

- an increasingly important item in the balance of payments is interest payments on outstanding debt which will have grown (taking into account projections for 1984) at an annual average rate of 17% over the period 1980-1984, despite successful debt reschedulings in 1981 and 1982 and assuming an additional debt rescheduling in 1983.

With respect to the public finance situation:

- the GOS has not been able to increase receipts substantially in recent years despite compliance with IMF recommendations for new tax measures;

- the largest item in public expenditures is public sector wages and salaries whose short-term compression will be difficult due to severe pressure on the government to act as an employer of last resort;

- since 1981 an increasing drain on the expenditure side is the cost of maintaining a subsidy of about 30% to peanut farmers (estimated at about $33.6 million in 1981/82 and projected to be about $66.3 million in 1982/83).

3. Major features of the GOS Economic and Financial Reform Program

The GOS medium-term Economic and Financial Reform Program continues to provide a sound basis for economic recovery in Senegal. The program outlines reforms designed to affect 1) the public finance situation 2) the balance of payments 3) price and wage levels 4) investment and 5) the agriculture sector.

a. To rectify the public finance situation the GOS has undertaken to: maintain the rate of growth of current expenditures below that of current revenue, reduce the share of outlays on personnel and reduce the role of public enterprises in the economy and improve their financial management.

b. To prevent further deterioration in the balance of payments the reform program calls for: the introduction of a more restrictive credit policy, the adoption of a foreign trade policy characterized by the progressive introduction of subsidies on nontraditional exports and fiscal duties on imports, and increasingly restrictive ceilings on new external borrowing.

c. With respect to prices and wages the GOS is commited to: the progressive decontrol of prices (largely completed), the fixing of producer prices at the highest level possible and the containment of wage level increases.

d. The investment targets in the program are clearly unrealistic and are currently being revised downward.

e. A comprehensive program of agriculture policy reforms designed to: increase production, reduce costs, improve farmer participation and encourage the role of the private sector is included. Progress has, however, been disappointing due to difficulties experienced in altering institutional arrangements and winning acceptance from powerful groups in the rural sector.

4. Policy dialogue and reforms

In the context of discussions with the IMF and the World Bank and taking advantage of USAID's substantial field presence to maintain a continuing dialogue with the GOS, USAID has demonstrated its full support for Senegal's efforts to implement its Economic and Financial Reform Program. It is the Mission's view that the most effective means of pursuing this course is by seeking regular consultations with the IMF and World Bank on the types of macroeconomic reforms which are compatible with political stability in Senegal and as appropriate tying U.S. program assistance with GOS acceptance of an IMF standby or extended facility agreement.

Recent evidence clearly demonstrates that the GOS must accelerate its efforts to implement economic reforms at the macro level in order to reverse a deteriorating trend in both the balance of payments and public finance situation. If important measures to check imports and government expenditures are not made urgently then Senegal may be facing a more critical situation next year, particularly in view of an expected decline in exceptional balance of payments aid. Hence, USAID/Senegal believes that it is necessary to make ESF and SDF program assistance conditional on GOS agreement with the IMF on a 1983/84 standby arrangement. The IMF is currently adopting a politically realistic but firm approach in its negotiations with the GOS.

D. Commodity Import Program and Direct Reimbursement

Essentially two forms of balance of payment support are envisaged under this PAAD. The first is a general commodity import program of $2.5 million which will be worked out with Senegalese importers--in particular those who have had previous imports from the U.S. U.S. trade statistics for 1981 indicate that Senegal's imports from the U.S. were $42.0 million or 8% of all GOS imports. U.S. import needs for 1983/84 are expected to be at least equal to the 1981 figures. Some $27.0 million of this was food imports ($11.5 million financed under PL 480 programs); this still leaves $15.0 million in nonfood imports from the U.S. or a comfortable margin for the $2.5 million in general commodity imports under standard financing rules proposed in this PAAD. Local importers contacted are very optimistic about the quick drawdown possibilities for imports under this program.

The second method is designed to provide immediate balance of payments relief of up to $2.5 million through direct reimbursement of imports already made from the U.S. during GOS fiscal year 1982/83 (7/1/82-6/30/83). Contacts with importers and the Central Bank indicate that the documentation is available, and that major U.S. suppliers would be willing to cooperate in certifying the origin of shipments made during FY 1982/83. Under this system it is planned to have the documentation in, processed, and approved by January 1984. (See Section VI, "Proposed Commodity Import Program," for a full analysis, and description of how the two methods will be implemented.)

Local currency (counterpart) will be generated in the following fashion. for the general import program, the importer will be required to make a deposit of 25% of the dollar value of the letter of credit in local currency. The applicant bank will transfer these funds to the Special Account in the Central Bank set up for this purpose. The importer will be required to arrange for a bank guarantee for the remaining 75% payment which will come due six months after the shipping documents have been received. This six month delay in deposit of the remaining counterpart is designed to offset, to a degree, the added expense of shipping a substantial part of the commodities on U.S. Flag vessels. It is expected that the first letters of credit will be opened in January 1984 with 25% of the l/c deposited, and the remaining 75% deposited by September 1984.

For the direct reimbursement, once the documentation has been approved by AID/W, dollar checks for the amount approved (up to a total of $2.5 million) will be issued in the name of the Government of Senegal. The Government will be required to deposit the equivalent amount of local currency (counterpart funds) in the special local currency account set up at the Central Bank for this purpose as of the day the dollar check is received.

E. Local Currency Use for Rural Road Maintenance and Improvement

Local currency generated under this program, approximately $5.0 million in CFAF, will be utilized for maintenance and upgrading of Senegal's rural road network in the three main geographic areas of joint USAID/GOS cooperation (i.e., the River Basin, Sine Saloum, and Casamance). In order to provide maintenance coverage for the full range of World Bank financed rural roads, some maintenance work has been included in the Thies and

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Louga regions as well. Local currency funding will provide for a two year activity under which a total of 1082 km. of rural roads will be maintained, repaired, and upgraded. Some 728.5 km. will receive routine or periodic maintenance, and 353.5 km. will receive upgrading. The latter group will be limited to rural roads which support specific development activities where the absence of upgrading would limit the economic return on the investments already made (e.g., irrigated perimeters, integrated rural development sites, etc.).

The GOS/USAID view this project as one of high priority in terms of essential rural infrastructure which must be maintained if the Government's overall agriculture development program is to be successful. Louis Berger, International, in its economic evaluation of this local currency project, visited all of the sites and calculated the cost benefit ratio for the individual sections of road to be maintained or upgraded. On upgrading, the economic rate of returns were from 12% to 36%. The rates were calculated conservatively, not including the substantial social benefits which would increase the value of the program Routine and periodic maintenance have higher rates of return. Louis Berger, International states regarding this activity: "The project is economically, technically, and organizationally sound. It will permit the full realization of development projects, allowing corresponding increases in agriculture production. Improved and properly maintained roads will end the isolation of villages otherwise cut off from markets, services, supplies, etc., especially during the rainy season. Vehicle operation costs will be reduced. The need for large investments for infrastructure will be delayed and the cost reduced." (See Annex G. for a detailed description and analysis of this project.) The GOS and USAID concur fully with this assessment.

It is expected that the program will be carried out under the Public Works Department using its Rural Roads Maintenance Brigades, its regional Public Works offices, and private contractors. As much as 25% will go to private contractors, largely small entrepreneurs. However, some of the more complicated work will involve some of the larger construction firms based in Senegal.

Funds have been set aside to allow the Government to survey the priority needs for further rural road maintenance and improvement. While the current 1082 kilometers has adequate back-up studies, any substantial additional work would require economic and technical studies.

This project has been worked out in consultation with the World Bank which is in the final stages of negotiation for its Fifth Highway Loan with the Senegalese Government. The Bank project will be limited to maintenance of the existing road network. The principal thrust will be the care of primary and secondary road, with AID concentrating on Rural Road maintenance.

F. <u>Development Impact and Policy Change</u>

Specific benefits to the Government and the macro, sectoral and sub-sectoral effects are discussed in Section B above, entitled, "Program Benefits Summary", and spelled out in more detail in Sections C to E above describing the specific elements of the $5.0 million grant: BOP support, general imports and direct reimbursement, and local currency use.

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The purpose of this section is to underline that program assistance is particularly effective, and can effect policy even though the amount provided may be relatively small in terms of the total foreign exchange requirements of Senegal or compared to other donor contributions. On the other hand, this amount may be very large in terms of the specific activity being supported. For example in the case of the rural roads maintenance and upgrading activity being financed under this project, it represents 16% of the total Road Maintenance budget and 66% of the budget line items reserved for rural road maintenance and improvement. A major policy point with the Government will be the necessity to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network (including rural roads) in a satisfactory condition, and that these budgetary provisions, over the next few years, take priority over the building of new roads be they primary, secondary, or feeder. (A covenant is planned on this point in the Grant Agreement.)

The staff level negotiations and Ministerial briefings surrounding this PAAD have provided significant opportunities for a policy dialogue on the absolute budget priority required so that Senegal's road network can be maintained in order that the other investments in agriculture can be effectively utilized. Opportunities to encourage proper policy go beyond the rural road element which is very important in and of itself. For example, in addition to the covenant mentioned above, one of the conditions precedent to disbursement of local currency will be the deposit by the Ministry of Equipment of its contribution to the Road Fund which covers the funding of road maintenance in general. Under the new Fifth Highway Loan being negotiated with the World Bank to allow the road maintenance to get off to a fast start this year, the World Bank will be putting 400 million CFAF into a revolving Road Account in early summer with the Government having agreed to put up its share by August/September 1983. Future contributions by the Bank will be pari passu on a matching basis with the GOS. This CP will not only help assure the GOS portion of the funding of road maintenance for the entire system, it will also help ensure the Government's contribution to this fund which includes the amounts needed for support of our rural roads segment of the total program. So the broad-based nature of the resource transfer under this program assistance grant (ESF) is providing opportunities that might not have presented themselves (or would have been severely limited if the aid had only been in the form of project assistance).

By assembling all of the program or nonproject assistance (ESF, this PAAD, $5.0 million; SDF, $4.25 million;[1] and Title III, $8.0 million) in the 1983 program, the USAID has a package of some $17.25 million in program assistance. This represents 14% of the unfinanced balance of payment gap. This direct participation in meeting the foreign exchange needs has provided credentials for in-depth talks with the GOS, IMF, and World Bank on Senegal's structural problems. IMF economists have welcomed USAID's interest. Recently the U.S. Executive Director to the Fund was briefed on the situation in Senegal by the USAID macroeconomist. It is this cooperation and solidarity with the other donors which is helping persuade the GOS to take the difficult "belt-tightening" measures described in Section IV below that are absolutely vital for the Senegalese Government. An example of this cooperation is the Condition Precedent in this Grant Agreement that makes disbursement of any dollar assistance under this PAAD subject to the GOS working out with the IMF a Standby Agreement for 1983/84.

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1 $0.75 million of the $5.0 million is for two technical assistance studies which does not provide direct balance of payments support.

Lastly, and perhaps most importantly, is the Government's perception of the U.S. as a reliable source of multi-year economic, technical, and food assistance continuing far beyond the one year life of project under this PAAD. It is this implied continual multi-year support of the Government's Economic and Financial Plan which has given, and continues to provide, the U.S. Mission with policy leverage over and above the amount of money provided for in this PAAD.

Therefore, the approval of this PAAD for $5.0 million, as well as the other elements of USAID's program assistance package, is essential to the successful continuation of this policy.

G. Conditions Precedent and Covenants

Apart from the usual statutory and administrative requirements, there follows a list of CP's and Covenants prepared especially for the draft agreement (See Annex C for the full text) proposed under this PAAD:

"Section 2.1. Conditions Precedent to First Disbursement. Prior to the first disbursement under the Grant, or to the issuance of AID documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

((a) and (b) are standard).

"(c) A procurement plan including the procedures by which all procurement financed under this Grant will be carried out, the criteria and procedures for determining importer eligibility and foreign exchange allocations, and the mechanism for publicizing procurement and making awards.

(d) A written statement that the Grantee has sent a formal letter to the International Monetary Fund (IMF) setting forth its proposals for a IMF Standby Agreement for Senegal's fiscal year 1983/84, and written confirmation that this proposal is acceptable to the IMF."

"Section 2.2. Conditions Precedent to Disbursement of Local Currency Generated

(a) No funds will be released from the special local currency account to be established in the Central Bank until arrangements for a joint GOS/USAID Counterpart Management Committee have been finalized. (See Section 5.1 (a)).

(b) No funds will be released from the special local currency account (counterpart) until the road maintenance revolving account to be established with the assistance of the World Bank under the Fifth Highway Project is operational, and the agreed upon matching contributions due in the summer and fall of 1983 have been deposited by both the Bank and the GOS;

(c) No funds will be released from the special local currency (counterpart) account until the Public Works Department has prepared an acceptable plan for execution of the Project, with guarantees of equipment and personnel availablility, and detailed description of the equipment to be used."

"Article 6: Special Covenants Concerning Program Implementation and Achievement of Program Objectives

Section 6.1 Efficient Import Procedures. Grantee covenants to undertake measures necessary to assure that its foreign exchange allocation and import licensing systems work efficiently and enable private importers, including small value importers, to participate fully as beneficiaries of this Agreement.

Section 6.2 Road Maintenance Budget. The Government covenants to make all reasonable efforts to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network in a satisfactory condition, and that these budgetary provisions, over the next few years, will take priority over the building of new roads be they primary, secondary or feeder.

Section 6.3 Road Maintenance and Improvement. Grantee covenants that it will ensure that proper arrangements are made for execution of any additional design and technical studies which may be needed for this or future programs.

Section 6.4 Periodic Consultations. Grantee and USAID agree to meet periodically, but no less than annually, to discuss the progress of implementation of the aforementioned covenants, to discuss the status of the economy, associated economic issues and the relationship of the AID program to those matters."

H. Compliance and USAID Position

The Embassy/USAID position on compliance is clear. In the unlikely event that the GOS does not live up to its agreements concerning either the dollar import side or local currency use agreements, and if all dialogue and negotiations fail, USAID would cut off the funding of the specific activity, or if the money was already spent, refuse to consider any future funding. If a fundamental issue was at stake in which the principle could not be compromised, or modified, the entire USAID program would be put in abeyance pending resolution. For example, one of the Conditions Precedent cited in Section G above, makes all dollar disbursements under the Grant Agreement (except for the Technical Assistance Studies) subject to the Government's working out a Standby Agreement with the IMF for 1983/84.

Having said this, one should stress that if the USAID continues its policy of financing activities where the objectives are the same or complimentary to the Government's goals, this eventuality need not arise. Should differences appear, sound analytical rationale would be furnished to the Government explaining the U.S. position. This would be coupled with a readiness to listen to the Government's side when there are disagreements.

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I. Conclusion and Recommendation

Given the Government of Senegal's request for program assistance (see Annex B for text) to help alleviate its serious balance of payments problem, and the need to use the local currency (counterpart) funds generated from this program for essential rural infrastructure (i.e., the maintenance of its rural road network and improvement of selected rural roads);

Given the economic policy, program and implementation information and justification provided in the preceding sections and tables;

IT IS RECOMMENDED THAT:

The Assistant Administrator for Africa approve this request for program assistance from Economic Support Funds (ESF) in the form of a grant of $5.0 million of which $2.5 million will be used for a general commodity import program with standard financing, and up to $2.5 million will be for a direct reimbursement of commodities imported from the U.S. during the Senegalese fiscal year 1982/83 (i.e., 7/1/82 to 6/30/83).

IV. MACROECONOMIC JUSTIFICATION

A. The Current Economic Crisis (1978 to the Present)

The combined impact of adverse external factors and inappropriate government policies led to the emergence of a serious economic crisis in 1978 which continues to persist despite concerted efforts on the part of the GOS to take corrective action. An examination of annual movements in selected macroeconomic indicators reveals a slow but steady increase in the rate of consumption as a percentage of GDP (see Annex A - Table 1) to a peak of 100.1% in 1981. Despite successful efforts to step up the investment level since the mid-seventies, the low productivity of capital has meant that increased public investment has not been reflected by increased economic activity. Thus, the gap between aggregate demand and aggregate supply (known as the resource gap) has widened consistently. The sections below deal with: the principle causes of the economic crisis and the balance of payments and public finance situations followed by a description of the corrective measures taken by the GOS and the external support for these measures; and a prognosis regarding the prospects for economic recovery.

1. Principle causes of the emergence of the crisis

The causes of the emergence of the crisis were several. First, drought severely affected three out of four harvests in the years 1977/78 to 1980/81, combined with comparatively poor world market prices for peanuts and phosphates, Senegal's leading exports. Second, despite the sharp fall in production and in national revenues, the Government attempted to preserve the purchasing power of the population. Farmers debts were forgiven in 1978; the public wage bill was raised by 36 percent in 1979; price increases in key imports such as rice and sugar were absorbed by government subsidies.

Thus, while real GDP per capita fell by 18 percent between 1977 and 1981, real consumption was permitted to continue at approximately the same levels, with the results that Senegal's current account deficit rose from 3.6 percent of GDP in 1977 to 18 percent of GDP in 1981. Although the Government continued large external borrowings, which began during the 1974 commodity boom, Senegal's balance of payments deficit increased from half of one percent of GDP in 1977 to 6.5 percent of GDP in 1981. Meanwhile, Senegal's outstanding external debt made a spectacular rise over the decade, from less than 15 percent of GDP at the end of 1972 to about 60 percent of GDP by the end of 1981.

Finally, poor management in the public sector, including the parastatals, further contributed to Senegal's economic and fiscal crisis. ONCAD, which held the monopoly on the provision of inputs to farmers, accumulated a debt of more than $267 million (CFAF 90 billion). The Stabilization Fund (CPSP) and the central administration also accumulated important deficits. By June, 1981 the total internal arrears of the Central Government and parastatals (including ONCAD) amounted to $500 million (CFAF 150 billion) or $67 million (CFAF 20 billion) more than total government revenues in the preceding year.

2. Underlying factors explaining the persistence of the crisis

The persistence of the crisis despite more favorable weather and larger export earnings from peanut products in 1982 and 1983 suggests that certain structural factors such as over-dependence on too few exports, reliance on imports to satisfy current consumption needs, declining prices for peanut oil as acceptable and relatively inexpensive substitutes emerge, the continued low return on investment and high labor costs in the modern sector.

On the export side, Senegal continues to be dependent on three exports (peanut products, phosphates, and refined petroleum products) which together account for slightly over one-half of total export earnings (See Annex A - Table 9). Senegal has been unable to improve substantially its export earning capacity through the further development of these products. Exports of refined petroleum products generate only limited foreign exchange since all crude oil requirements must be imported. With respect to phosphates, Senegal's total share of the world market is relatively small at only 1.5% due to strong competition from other international suppliers. The emergence of alternative vegetable oils on the world market (e.g. soybean and sunflower seed) together with the rise in output of peanut oil have caused a decline in the price which is only 54% of the 1978 level. As a result export earnings as a percentage of GDP have declined steadily from about 36% in 1975 to 28% in 1982 (See Annex A - Table 1).

Second, with respect to imports, the volume and composition are such that import dependency has tended to increase without an offsetting increase in domestic productive capacity (See Annex A - Table 8). For example, the share of imports for food and other consumer items, which have little, if any, impact on the future productive potential of the economy, has increased at the expense of imports of capital equipment and intermediate goods. One of the reasons is that Senegal has become increasingly dependent on food imports to satisfy domestic requirements. A combination of factors, such as difficulties with the marketing system for domestically produced cereals, a past Government policy of subsidizing food imports, a taste preference for imported cereals (e.g. rice and wheat), and stagnating domestic rice production, account for this trend. The cost and the volume of oil imports have increased dramatically, placing heavy demands on scarce resources. The oil bill rose from $76 million in 1976 to $240 million in 1982, representing an average annual increase of 35%. Recent decreases in world oil prices are not expected to have a significant impact on the cost of oil imports due to the continued weakness of the CFA franc against the U.S. dollar.

As a result of the fall in prices of major exports and the simultaneous increase in prices of major imports, Senegal has experienced a considerable deterioration in its terms of trade since 1975. (See Annex A Table 12.) Whereas the terms of trade of non-oil developing countries as a group improved markedly in 1977 and continue to remain above their 1975 level, the terms of trade for Senegal have fluctuated over the same period, primarily in a negative direction, and have remained consistently below their 1975 level.

3. The present balance of payments situation

a. The current account

Most recent developments in the balance of payments situation differ slightly from the structural trends that have explained the general inability of the Senegalese economy to pull out of the crisis over the last five years. Since 1981, Senegal's trade balance has improved somewhat in response to the recovery of export earnings derived from the groundnut sector and this despite a continued drop in world prices. More favorable rainfall and higher producer prices have worked to increase the volume of groundnuts marketed from a historic low of 68,000 tons in 1980/81 to an estimated 890,000 tons in 1982/83. Imports have increased in nominal CFAF terms over the 1981-1983 period but in real terms have remained at about the same level, demonstrating a slow-down in the volume of imports due to the combined impact of inflation and the depreciation of the CFAF against the U.S. dollar. (See Annex A - Table 6). Nevertheless, the share (in value terms) of current consumption goods such as food and petroleum products in total imports continues to remain high at about 50%.

An increasingly important item in the current account is interest payments on debt which will have grown (taking into account projections for 1984) at an annual average rate of 17% over the period 1980-1984. Most disturbing is that this growth has occurred despite two successful Paris Club debt reschedulings in October 1981 and November 1982 and assuming another debt rescheduling at the end of 1983. Although debt rescheduling has relieved considerable pressure on Senegal's debt service for the 1981-1983 period, it has serious implications for the debt service burden in subsequent years, since debt is not forgiven but payments are simply delayed. At the heart of Senegal's debt problem, which remained manageable through 1977, was the necessity to borrow on relatively hard terms during the poor harvest years of 1978, 1980 and 1981 to maintain essential food imports and a flow of raw materials and spare parts for industry. Thus, external debt outstanding as a percentage of GDP jumped from 21% in 1977 to 26% in 1978, and is currently projected to be about 60% of GDP. (See Annex A - Tables 13 and 14.)

The GOS also resorted to commercial credit to finance part of the investments under the Fifth Development Plan (1977-1981) as the flow of concessional resources for this purpose proved to be lower than expected. Senegal is now confronted by a debt situation which is barely sustainable. Debt service as a percentage of exports of goods and services is projected to reach 27% in 1983,[1] while an 18% debt service ratio is generally considered to be an upper limit. Given the present circumstances, it is clear that Senegal is not in a position to consider external borrowing to finance its balance of payments deficit and that even loans on less than commercial terms (e.g., suppliers' credit) must be kept to a minimum.

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1 Assumes a 1983 debt rescheduling and 34% without another rescheduling.

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b. The capital account

A main feature of the capital account since 1980 is the declining trend of net capital inflows to compensate for the trade deficit. Thus, net capital inflows have declined from $297.4 million in 1980 to $186.5 million in 1983. It is expected that the capital account will level off in 1983 and 1984 at about $190 million. The decrease in net capital inflows is the result of a number of factors. First, net public sector inflows which become a significant feature of the capital account for the first time in 1980 (with $208 million) began to drop off in 1982. This reflects Senegal's efforts to limit public sector borrowing, as well as a decline in official concessional loans. Second, Stabex[1] flows from the EEC, designed to offset decreases in export earnings as a result of external factors such as drought or an abrupt fall in world prices for major export commodities, declined from $80 million in 1980 and $42 million in 1981, to nothing in 1982 and 1983. The loss of access to Stabex compensation is explained by the fact that, although the world prices for groundnut products have continued to fall, the volume of exports has increased considerably, and with it, export earnings. Finally, net private sector inflows have also decreased since 1980, from $89.4 million to $52.8 million in 1983; however, a slight increase is projected for 1984.

c. Impact of the balance of payments on reserves

A short-lived improvement in Senegal's balance of payments during the mid-1970s permitted reserves to grow significantly but by the end of 1980 Senegal's share of reserves had fallen to a bare minimum of $7.6 million, or about three days' imports. In 1981 the situation improved marginally and the Central Bank's foreign assets rose to $8.6 million. Preliminary figures for the first half of 1982 show no significant change in this situation. Clearly, Senegal cannot rely on its reserves to finance a balance of payments deficit.

d. Implications of Senegal's membership in the West African Monetary Union on the balance of payments

Senegal's membership in the West African Monetary Union (WAMU) and this union's agreement with France have special implications for the conduct of monetary policy and the balance of payments. On the positive side, member states pool their foreign exchange earnings and reserves in a common central bank, the BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest). Thus, although a member's foreign exchange payments may be greater than its reserves plus foreign exchange receipts, it may draw on the excess reserves of other member states to finance its payments. More importantly, France guarantees the full convertibility of the CFAF against the French Franc at a fixed rate of 1 CFAF equals 0.02 FF. Therefore, as long as the WAMU members possess CFAF they may obtain foreign exchange through France's exchange market in Paris. In practice, the guarantee is ensured through an operations account with the French Treasury which provides overdraft facilities to the BCEAO.

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1 A special financing facility set up by the EEC to protect less developed countries from wide fluctuations in the prices of their exports.

There are, however, a number of mechanisms used to limit domestic credit expansion within WAMU which, in effect, through the limitation on CFAF availability, place a ceiling on the BCEAO's access to overdraft facilities on the operations account. First, whenever the average amount of the BCEAO's net foreign assets falls short of 20% of its liabilities for three consecutive months, the BCEAO must reduce its rediscount ceilings. Second, regardless of the Central Bank's net foreign asset position, the BCEAO must give its approval for any request for a bank loan in Senegal which exceeds approximately $206,000. During 1978 through 1980, despite these mechanisms and a deteriorating net external position, the BCEAO experienced difficulty in limiting credit expansion. (See Annex A - Table 15.) This was due mainly because private banks were raising resources for lending from foreign sources to supplement financing backed by domestic deposits, rediscounts, and net money market operations to meet the increased demand for credit. As a result, Senegal's foreign liabilities included for the first time in 1978 an overdraft on the operations account of $18.2 million, which increased in 1979 to $84.6 million, and again in 1980 to $148.6 million. Since 1980, however, Senegal's access to additional overdraft facilities has been limited. As the net foreign assets of the Central Bank became increasingly negative the rate of growth of domestic liquidity was brought under control.

Interest costs on the overdraft facility, which vary according to the discount rate of the French Central Bank and include finance charges (e.g. currently estimated to be about 15%), have also been a deterring factor to further recourse to the operations account.

Furthermore, since 1980, Senegal has, in the context of various stabilization agreements with the IMF, placed serious limits on both domestic credit expansion and recourse to new external borrowing. The net result of these factors is that Senegal's CFAF availability which would allow it to obtain additional foreign exchange through the operations account and thus to finance its balance of payments deficit, has been severely constrained. Thus in 1982, due to a combination of the limits on credit expansion, high interest costs on the overdraft facility and substantial central bank deposits Senegal made no additional drawings on the operations account.

In 1983 have been a number of new developments which would tend to discourage significant additional drawings on the operations account. First, France is currently experiencing difficulties in maintaining an acceptable level of reserves due to the weakness of the French Franc against other major currencies over the last 18 months. Thus, Franc zone countries are being encouraged to limit and where possible to reduce their overdrafts with the French treasury. Second, as a result of a slack world market for oil exports and recent price decreases, the reserves of the two major oil exporters in the Franc zone (Cameroon and Gabon) have dwindled and are no longer sufficient to cover other countries' overdrafts which means that the direct pressure on France to use its reserves to back the CFAF has actually increased. This situation arises at an inopportune time for Senegal since current projections indicate that financing, particularly from friendly Arab countries, is expected to decline significantly in 1983.

e. Financing of the balance of payments gap

Senegal depends heavily on net transfers (ODA grants), official loans (public capital inflows) and central bank financing in the form of IMF drawings, an overdraft on the operations account and central bank deposits by friendly countries to finance its balance of payments gap. In 1982, the current account deficit of $305.8 million was financed by $145.4 million in net public sector capital inflows including exceptional balance of payments assistance and $160.4 million in central bank financing principally from Kuwait ($110 million central bank deposit) and the IMF ($48.4 million in drawings in the context of the 1981/82 standby agreement).

Sources of financing for this year's current account deficit projected to be $354.2illion (See Annex A - Table 6) are at present uncertain. The GOS is hoping for the following:

Projected current account deficit:	$	354.2	million
- IMF drawings(assuming a 1983/84 Standby)	$	23.1	million
- Arab exceptional BOP support	$	12.0	million
- France exceptional BOP support	$	60.5	million
- Other net official capital inflows	$	138.7	million
- TOTAL	$	234.3	million
Unfinanced current account deficit:	$	119.9	million
- Proposed AID non-project assistance of which:	$	17.25	million
- Title III	$	(8.0 million)	
- ESF	$	(5.0 million)	
- SDF[1]	$	(4.25 million)	
Current account deficit after proposed AID contribution:	$	102.6 million	

While the above breakdown is still tentative, it is also clear that for 1983 there is a definite need for balance of payments support. Furthermore, a U.S. contribution of $17.25 million ($8 million Title III, $5 million ESF and $4.25 million SDF) would make a significant contribution to the balance of payments representing 14% of the as yet unfinanced portion of the current

1 $0.75 out of the $5.0 million of SDF is for two technical assistance studies and is not considered in this case as balance of payments support.

account deficit. The outlook for 1984 is expected to be even more critical, since net flows from the IMF, an important source of balance of payments financing especially in 1982, are projected to be negative, even with a new standby agreement, due to the considerable amount of repurchases required as a result of previous IMF drawings. Arab sources, which have been relatively important in recent years, are expected to diminish if oil revenues continue to decline.

4. The present public finance situation

The impact of the current economic crisis is clearly reflected in the financial position of the GOS. (See Annex A - Table 16.) Since 1977/78 and particularly since 1980/81, the government has run a deficit on both its current and capital operations. From 1980/81 through to 1982/83, the deficit on current operations was about 4.9% of GDP and it is expected to remain at about the same level in 1983/84. The overall deficit as a percentage of GDP (on a disbursements basis which includes changes in government arrears) has varied between 8.7% and 9.8% over the last three fiscal years and is expected to be about 9.2% of GDP in 1983/84.

a. Current operations budget

On the revenue side, the GOS has not been able to increase receipts substantially over the 1980/81 - 1982/83 period and this despite compliance with IMF recommendations for new tax measures. There appears to be very little scope for increasing government receipts through the introduction of additional taxes since Senegal is already characterized by a relatively high ratio of tax revenue to GDP (estimated at 21% in 1981/82). The ratio of taxes to GDP is slightly above the average for other countries participating in the West African Monetary Union (WAMU) and about 25% above the average for lower income African oil importing countries. On imported items there are three taxes: a basic customs duty of 15%, a fiscal duty of an average 40%, and a value added tax at an ordinary rate of 20%. The direct tax system taxes each category of income separately and then follows up with a surtax of overall income. Thus, the prospects for future increases in revenue depend almost entirely on more efficient tax collection and administration, not on increased rates.

With respect to expenditures, the largest item continues to be public sector wages and salaries. A recent IMF study shows that the level of the wage bill in Senegal is about 28% higher than would be expected in a country of Senegal's size and income. Senegal's civil service was estimated in January 1982 at 61,000, compared to 68,600 in Ivory Coast, a country with a population about 50% larger and a GDP more than three times that of Senegal. There are, however, a certain number of political factors, including the lack of private sector opportunities for the employment of the educated, which have and will continue to apply severe pressure on the government to act as an employer of last resort. Thus, the problem of containing and reducing public sector employment must be treated in the context of employment generation efforts in other sectors. Nevertheless, the GOS since 1980/81 has been successful in limiting the real growth of current expenditures on wages and salaries which in local currency terms, have increased on average at about the same pace as inflation.

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Since 1982, the GOS appears to be stabilizing the level of expenditures for supplies at about $200 million with a real decrease currently being projected for fiscal year 1983/84. However, one item which will be assuming progressively more importance in the current expenditures outlook is interest on public debt. Debt service payments on government debt will be high due to the contractual debt managed by the Autonomous Sinking Fund (CAA), and the need to pay off short-term arrears, the debts of the now defunct parastatal ONCAD, and the exceptional aid received in the form of special treasury loans. Government arrears are estimated at about $118 million (approx. CFAF 40 billion) and the amount of ONCAD's debt assumed by the government at about $267 million (approx. CFAF 90 billion).

Another big drain on the current expenditure side is the Price Equalization and Stabilization Fund (CPSP). The role of this fund since the GOS has decontrolled most of the subsidies on consumer goods is primarily to stabilize revenue to farmers from major export crops such as groundnuts and cotton. This stabilization function is viewed as being of particular importance due to the relatively unfavorable recent world price developments for groundnut products. Producer prices for groundnut products were increased by 40% in 1981 and those for cotton by 13%. The object of this increase was to spur agriculture production of export crops as a means of improving export earnings, which has indeed occurred. However, given the fact that world prices are currently below domestic producer prices plus transformation costs, the GOS through the CPSP is paying a subsidy of about 30% to farmers. The estimated deficit of the CPSP groundnut account for the 1981/82 fiscal year is about $33.6 million (CFAF 10.5 billion) and for 1982/83 is expected to be about $66.3 million (CFAF 24 billion). Thus, increased groundnut production which has contributed substantially to the improvement of the trade balance, has an opposite effect on the government's balance of current operations. The GOS is currently seeking solutions for the financing of this significant deficit.

b. Implications of the current operations budget for recurrent costs

The GOS's difficulties with respect to the current operations budget suggest that there will be serious constraints on Senegal's ability to finance the operating and maintenance costs of its infrastructure and investments. Since 1981 a considerable amount of additional aid from donors has been sought to finance recurrent costs and local counterpart contributions to development projects. The shifting composition of investments included under the Sixth Plan (see Annex A-Table 4) may bring some relief in the growth of demand for recurrent expenditure due to a relative decrease in social sector and rural development investment targets and an increase in the proportion of investment allocated to directly productive sectors. Nevertheless, recurrent cost minimization is likely to be an important criteria for project selection until the public finance situation has improved.

c. Capital budget

The situation with respect to the capital budget has been largely influenced by problems concerning the current operations budget.

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Senegal has experienced increasing difficulties in generating budgetary savings to finance capital expenditure. Thus public savings before debt service declined from approximately $7.2 million on average for the period from 1976/77 to 1979/80 to minus $35 million in 1980/81. The trend with respect to investable surplus has been even more pronounced and became negative beginning in 1977/78. The result has been that despite debt rescheduling the GOS has been unable to contribute to the investment budget through public savings in recent years. Serious doubts can be raised about the GOS's ability to mobilize the resources required to cover its contribution to the proposed investment under the Sixth Development Plan which has been estimated at about $150 million or 11% of the total for the period 1981-85 (see Annex A-Summary Table 4A). In recognition of the relative infeasibility of investment targets, the Sixth Plan is currently being revised downward and will give priority to 19 major investment projects. In 1983/84 the Government expects to limit the deficit on the capital budget through increased efforts to mobilize external capital grants and a 17% cut in capital expenditures.

B. Corrective Measures

In December 1979 the GOS, recognizing the necessity to move from ad hoc corrective measures to a comprehensive program for economic reform and stabilization, launched its medium-term Economic and Financial Reform Program. This program has provided the basis for IMF and World Bank support to economic policy reform with the IMF concentrating on measures to rectify the balance of payments and public finance deficits and the World Bank on agricultural policy. The following section presents corrective measures introduced directly by the GOS and in connection with support from the IMF and the World Bank including an assessment of GOS performance in actually applying these corrective measures.

1. The GOS Economic and Financial Reform Program

The Economic and Financial Reform Plan ("Plan de Redressement") has three broad objectives: 1) to stabilize the economy through a reduction in the balance of payments gap, 2) to stimulate growth and, 3) to reduce urban-rural income inequality. It was expected that the first two or three years (1980-1983) would be focused on stabilization and that in the subsequent years the economy would assume a steadier growth path. (For a summary of this program see Annex D).

To rectify the public finance situation the GOS has undertaken to (1) maintain the rate of growth of current expenditures below that of current revenue (2) progressively reduce the share of outlays on personnel (3) reduce the role of public enterprises in the economy and improve their financial manangement. According to recent figures on government operations the GOS has in fact made some progress with respect to all three of the above. Growth in current revenue has been on average marginally above growth in current expenditures (0.8% and 0.2% respectively). The share of outlays on personnel has decreased from 56% in 1980/81 to 48% in 1982/83. The GOS has signed six program contracts with public enterprises to strengthen their efficiency and to limit the government's financial responsibility to those entities.

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As a means of preventing further deterioration in the balance of payments the GOS Reform Plan calls for: 1) the introduction of a more restrictive credit policy through increases in interest rates and the use of a system of advance authorizations for credit requests exceeding about $206,000 2) the adoption of new foreign trade policy through the progressive introduction of an increase in import duties and a selective export subsidy to encourage sectors that offer real export possibilities and 3) concerted efforts to limit service on external public debt to 15% of export earnings. Consistent with these objectives, interest rates were increased in 1982 by an average 2%. The system of advance authorizations for credit has been introduced as well as a new foreign trade policy. Debt service payments have exceeded the 15% of export earnings; however, the GOS has made efforts to reduce debt service by conforming with IMF ceilings on new external borrowing and negotiating two successful debt reschedulings in 1981 and 1982.

With respect to prices and wages the reform plan commits the GOS to: 1) the progressive decontrol of prices 2) the fixing of producer prices at the highest possible level compatible with the anticipated export price and 3) maintenance of wage level increases within the limits of the projected growth in GDP and domestic consumption. Since 1980, the GOS has made impressive strides towards the elimination of subsidies even on sensitive food products. Prices were raised by 25% for bread and sugar, 31% for rice, 39% for groundnut oil, 42% for wheat flour and 59% for gasoline. At present, subsidies remain for some agriculture inputs such as groundnut seed and fertilizer, and to the producer price for groundnuts and tariffs on certain public services. Wage increases have been kept to a minimum of about 5% in the public sector for 1982 and 1983 and have increased in April of this year for the first time since January 1981 in the private sector. The producer price for groundnuts, which has been traditionally below the export price is now subsidized since domestic costs are currently above world prices. This is due both to the fact that the GOS increased the price perhaps too sharply in 1981 and to an unexpected deterioration in the world price since 1981.

In the context of the Sixth Development Plan the GOS has set a number of investment targets: (1) the maintenance of total private and public investment at about 17% of GDP and public investment alone at 10% of GDP (2) the allocation of 55% of investment to directly productive sectors (as compared to 47% in the Fifth Plan) and (3) an increase in the contribution of public savings from 15% of public investment to 25% over the 1981-85 period. In 1981 and 1982 investment has been estimated at about 20% of GDP and according to the proposed composition of the Sixth Development Plan 57% of total investment is to be allocated to the primary and secondary sectors. As for the contribution of public savings to finance public investment the 15%-25% target appears to be overly-ambitious in view of the GOS's current budgetary difficulties.

Given the importance of the agriculture sector in determining the good health of the overall economic situation, the GOS reform program outlines a number of measures with respect to: (1) the use of incentive pricing (2) the reorganization of regional and national rural development institutions (3) the reorganization of the Price Equalization and

Stabilization Fund (4) reorganization of the seeds and other agriculture inputs (5) overhaul of agriculture credit (6) overhaul of groundnut collection and weighing operations (7) encouragement of the private sector in marketing (8) creation of village sections within cooperatives and (9) reorganization of agriculture research. Especially important are reforms dealing with the reorganization of regional rural development agencies, the reform of Senegal's system for supplying the farmer with fertilizer and seed, the reform of rural credit and the strengthening of farmers' organizations such as village sections and cooperatives. This comprehensive program for structural reform in the agriculture sector is designed to: (1) stimulate production of food crops to decrease import dependency (2) increase and diversify agriculture production (3) encourage farmers to accept more responsibility by providing them with extension services and training in cooperative organization and (4) increase incomes of farm families.

For the period 1980 to 1982 the GOS has introduced a number of measures to promote structural reform in accordance with the above program. Producer prices for export crops and domestically produced cereals were increased across the board in 1981.[1] Consumer prices of imported food products now tend to reflect import costs. ONCAD, the parastatal responsible for providing inputs, credit, and for marketing groundnut production up to 1980 was dissolved and arrangements have been made for settling this institution's liabilities vis-a-vis its suppliers and the banks. The responsibility for groundnut marketing has been transferred to the cooperatives which deliver their production directly to the oil crushers. Program contracts between the GOS and three of the rural development agencies (SAED, SODEFITEX, SODEVA) have been signed, a study of the financial management of the CPSP has been made, a policy of encouraging farmers to store their own seed was attempted but abandoned during the 1982-83 growing season, and procedures for the overhaul of groundnut collection and weighing operations have been implemented. Measures have also been taken to promote the role of private transporters in the marketing of agriculture production.

Despite the above achievements there are a variety of areas in the agriculture sector where change has proved to be difficult. The first concerns the role and future of SONAR, a temporary agency created following the dissolution of ONCAD to supply farmers with inputs such as seed and fertilizer. While the GOS has expressed acceptance of the principle that this agency should be temporary, it has serious reservations regarding the timing of the phasing-out process, particularly in view of the critical unemployment situation in Senegal.

Secondly, the GOS has recently suspended its new policy of encouraging individuals to hold back part of their harvest to serve as seeds for the growing season due to technical difficulties with seed preservation and the release of funds for this purpose as well as to unfavorable reactions from the farmers themselves. These farmers, who are accustomed to wide fluctuations in their production from one year to the next, were hesitant about opting in favor of conserving their own seed stocks since they believed that this would permanently deny them access to government seed stocks in the future. Concern has been expressed with respect to the implications of this policy for the quality of future seed stocks.

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1 In April 1983 producer prices for rice, maize and millet were increased an additional 10 - 20%.

Thirdly, there are differences of opinion on the relationship and respective roles of cooperatives versus village sections. The reform program calls for a strengthening of the village sections and their role with respect to seed management and other functions. However, the cooperatives have been the most important organizations in the past and it is only normal that greater emphasis on village sections has provoked a certain amount of opposition from those groups with vested interests in the former system. Fourthly, the combined impact of the new policy of cash sales for fertilizers, and a progressive phasing-out of fertilizer subsidies has had serious implications for fertilizer use during last year's growing season and these are likely to continue this year. (See Annex F on the "Economic, Technical, Financial Justification for Fertilizer Imports".) The introduction of a consistent and feasible policy on fertilizer sales could contribute substantially to the resolution of problems in this area. Finally, the reorganization of rural development agencies has proceeded more slowly than originally expected despite the signature of program contracts. Problems associated with staffing, and administrative and financial management have proved to be quite stubborn and efficiency has suffered. These difficulties are reflected in performance with respect to the World Bank's Structural Adjustment Loan (See B3).

Although important measures have been taken to promote structural change in the agriculture sector, reform has been more elusive than anticipated. Institutional arrangements have demonstrated remarkable inertia and Senegalese farmers, who have been accustomed to extensive government participation, appear cautious about assuming the risk involved in farming in the Sahel region without significant government support. The newly appointed Minister for Rural Development has asked for a 6 month reflection period before presenting a comprehensive program for pursuing structural reform in the agriculture sector.

2. <u>IMF support for economic stabilization</u>

IMF support for economic stabilization in Senegal began shortly after the formal adoption by the GOS of its Economic and Financial Reform Program. In August 1980, an Extended Fund Facility (EFF) was approved covering three fiscal years from July 1980 to June 1983 for the amount of SDR 184.8 million (approximately $207 million). Performance under the first year of the program, however, fell short of expectations, partially due to the drought but also because a number of measures specified in the program were not applied. The current account deficit in 1980 exceeded the program target by about $30 million as a result of larger than projected imports. The overall balance of payments deficit, however, was more in line with targets due to larger than expected capital inflows. The ceiling on total domestic credit was exceeded in the last quarter of 1980 by about 5%, and during the first half of 1981 the ceiling on the cumulative deficit of the central government was exceeded by a considerable margin with a deficit of about $4.3 million instead of a projected surplus of about $1.4 million. The ceiling on new foreign borrowing, which was observed through November 1980, was slightly exceeded in December.

In view of the difficulties experienced during the EFF it was decided that the approach under a standby arrangement would be more adapted to the specific constraints faced by the GOS. Hence, in September 1981, a standby was approved covering the period from July 1981 to June 1982 and allowing for drawings of SDR 63 million, or about $72 million by the GOS. erformance

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under the 1981/82 program was significantly better and the deteriorating economic situation was reversed somewhat through a combination of good weather conditions, sizable external assistance and strong adjustment measures. All quarterly performance criteria were satisfied.

A new standby agreement was approved in November 1982 covering the Senegalese fiscal year from July 1982 through to June 1983. However, the program got off to an unfortunate start and during a December IMF review mission it was found that ceilings for credit expansion (total domestic credit and net government claims on the banking sector) had been exceeded, although only marginally, according to both September 30th and December 31st performance criteria. Thus, since December the GOS has been unable to draw on IMF resources. Factors explaining excessive credit expansion are both external and internal. First, contrary to the underlying assumption of the new stabilization program of a 17% firming of the prices of groundnut products, the world price of groundnut oil has fallen in constant prices to its lowest level in the past ten years. Second, the interest payments on outstanding debt reflecting a downward rigidity in world interest rate proved to be higher than anticipated. These two factors alone represent a GOS revenue shortfall of about $50 million, or 2.2% of GDP. On the other hand, the GOS has also been slow in introducing adjustment measures, particularly immediately prior to national elections, which were held on February 27, 1983. Nevertheless, some important steps to check demands on public resources and to increase government revenue have been made: (1) prices for milk sugar were increased by 50% in November 1982, (2) the fiscal duty on imports was increased by 5%, (3) the export subsidy on nontraditional exports has been raised from 10% to 15% and the list of eligible products has been extended, and (4) proposals for increased taxes on alcoholic beverages and kola nuts will be submitted to the newly-elected National Assembly in April 1983. (For a summary of major requirements under the IMF standby, see Annex E.)

A number of important agriculture reforms outlined in the previous section on the GOS recovery program are also in the process of being implemented under the standby with the IMF. A contract is being negotiated to increase the role of oil crushing firms in the marketing of groundnuts and to encourage them to minimize costs (signature expected shortly). A contract has been signed with the domestic fertilizer producer to assume direct responsibility for fertilizer distribution, and the price of fertilizer has been doubled, reducing the subsdidy to about 60%.

Under the 1982/83 stabilization program the GOS has been authorized to use only 12.5% of its drawings. Following an IMF mission in January 1983, it was decided that despite the resource shortfall of about $50 million due to high interest rates and the relatively low prices for groundnut, the GOS would maintain the original objectives of the program as set in November. In order to do so, however, it would be necessary for the GOS to mobilize major new balance of payments assistance of about $50 million on grant terms. Since the GOS has been unable to mobilize this exceptional aid, it was decided in May that the IMF and GOS would begin negotiating a new agreement covering the period from July 1, 1983 to June 30, 1984. The new program is to be based on the introduction of concrete measures to correct, in particular, the critical public finance situation. (See Section C.3 on Public Finances.)

3. World Bank support for economic reform

In late 1980, the World Bank approved a $60 million Structural Adjustment Loan (SAL) to Senegal. The loan, designed to support the GOS Economic and Financial Reform Program, concentrated on four areas of structural adjustment: fiscal and monetary; prices and incentives; investment programs; and institutions and policies in the agriculture sector. Since the SAL was introduced, the World Bank and the IMF have been working together closely to ensure that the major requirements of the SAL and the EFF, subsequently turned standby, are compatible and, where possible, mutually reinforcing. The release of SAL funds is in principle conditional on the GOS meeting standby terms. The IMF standby arrangement, which must be renegotiated annually, incorporates the major outstanding requirements under the SAL. In the division of labor between these two institutions, the IMF has concentrated on the macroeconomic aspects of stabilization, while the World Bank has assumed responsibility for monitoring agriculture and institution reforms.

Counterpart funds have been deposited in a special account and are being used to cover the development expenditures of the parapublic sector and to improve the efficiency of a number of key rural development agencies. The World Bank has to date only approved GOS program contracts with SAED and SODEFITEX.

As a result of the slower than expected progress in implementing agriculture reforms (See Section B2), the World Bank has not yet disbursed the second tranche of the SAL (equivalent to about $16 million). The original terms of the loan set the deadline for release at December 31, 1981, but this was subsequently extended to June 30, 1983. The final decision as to whether to release the second tranche before the expiration date will be made in the course of the month of May. Implementation difficulties can be linked to the nature of SAL conditionality which has been relatively complex, involving a number of different institutions and reforms in a variety of different areas, such as seed stock maintenance, the distribution and pricing for fertilizers, the reorganization of RDAs, and the future of the parastatal SONAR. As a result, progress in one area has been penalized by inadequate performance in other areas.

Based on experience with the SAL, the World Bank is considering the continuation of support for economic reforms, but in a more limited context. Through a combination of technical assistance to draw up rehabilitation programs for key public enterprises, and subsequent lines of credit to these enterprises to provide working capital and foreign exchange for necessary imports, the World Bank aims to encourage additional streamlining of the parapublic sector. A healthier parapublic sector would also have important implications for GOS public finances, since aggregate net income for this sector is currently negative. Few companies can auto finance any portion of their new investments and parapublic companies have generated only a small percentage (11%) of total government tax receipts. Twenty-nine of the sixty-eight parapublic companies have experienced operating deficits in each of the last five years, with aggregate operating losses in FY81 totalling $13 billion CFAF. Direct Government subsidies in FY81 were $12.6 billion CFAF, equal to 10% of the Government oprerating budget (excluding debt service) and 20% of the public sector deficit in that year.

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The World Bank is proposing a new technical assistance project, estimated at $10 million, to finance the formulation of rehabilitation programs for OPT (postal and telecommunication), SOTRAC (urban bus company), and SENELEC (power company), followed probably by OHLM (urban housing) and SICAP (urban housing) Dakar-Marine, SONADIS (distribution) and SONEES (water supply). It is expected that this project will be approved in the middle of 1983. A subsequent project is envisaged to provide financial support for enterprises demonstrating progress in implementing their rehabilitation programs, with disbursements made at six-month intervals, conditional upon enterprise performance in areas such as production efficiency, maintenance, billing recovery, investment execution etc. The World Bank is currently planning on channelling to the parapublic sector as much as $50 million over a three-year period beginning most probably in early 1985.

C. Other Donor Assistance

Since the beginning of the economic crisis in 1978, Senegal has benefited from considerable donor support for its efforts to redress the economy. Aid donors fall basically into three major groups: OECD donors, Arab donors, and multilateral donors. (See Annex A - Table 19.) The latest figures available are for 1981. They would seem to indicate that the largest donor group of concessional assistance consists of the OECD countries providing $301.4 million out of $524.2 million (or 58%), then Arab donors providing $152.5 million or 29%, and last, multilateral donors providing $70.3 million or 14% of the total. Project and technical assistance account for 70% of official development assistance (ODA) extended in 1981 and nonproject aid for 30%.

Senegal also received in 1981 $150.4 million in loans at somewhat under market rates but above highly concessional ODA terms. The major donor group is comprised of the multilateral donors with the World Bank's loans accounting for about one-third of this type of financial flow. France, principally through the Caisse Centrale de Cooperation Economique (CCCE) extended about 25% of these loans made on somewhat harder terms. (See Annex A - Table 20.) The program component of this category of assistance accounts for about 40% of the total and the project aid and technical assistance components for about 60%. These figures would seem to imply that at least some donors tend to provide program financing at less than a 25% grant element. However, due to Senegal's debt structure, the GOS will find it increasingly difficult to take on new commitments at these terms.

Senegal's major donor has traditionally been, and continues to be, France, who contributed $188.5 million, or about 28% of total official flows in 1981. (See Annex A - Table 21.) France provides a sizable amount of its aid as technical assistance, which represented 38% of its total program in Senegal in 1981. The World Bank share in new commitments varies from year to year, but in 1981 it was the second largest donor, providing $99.7 million, or about 15% of total official flows. A major component of the program in 1981 was the Structural Adjustment Loan. Kuwait, the EEC, and Saudi Arabia extended somewhat over $60 million each in 1981. While the EEC and Saudi Arabia provided sizeable program assistance, Kuwait's assistance was committed to the OMVS project. U.S. assistance which is totally on grant terms to Senegal has been increasing rapidly since 1978, and the U.S. was the sixth largest donor in 1981, with $35.6 million in new commitments. (See Annex A - Table 18.) Food aid and assistance to the agriculture sector were prominent features of the program. After the U.S, the African Development Bank and Germany extended about $30 million each in 1981.

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In addition to official flows, Senegal also benefited from increased Central Bank financing as a result of drawings on IMF resources of $62.6 million under a standby arrangement and the Compensatory Financing Facility. (See Annex A - Table 22.)

Preliminary figures for 1982 appear to indicate a decrease in new aid commitments to Senegal of about 25%, with a substantial fall-off in program assistance and loans in general. This may be due to a number of factors:

- Export earnings increased substantially in 1982, making Senegal ineligible for compensatory financing through the IMF and the EEC.
- Many of the program commitments (e.g. SAL) made in 1981 were intended to be disbursed over a two-year period.
- As arrangements for moving ahead with OMVS were finalized, donors, and in particular the Arab donors, directed new funding to OMVS rather than in the form of balance of payments support.

It is expected that Senegal will continue to enjoy relatively high levels of external support; however, future levels, especially from Arab donors, may be affected if world oil prices continue to fall. Given current economic difficulties in industrialized countries, it would not appear likely that OECD donors could compensate for a gap in the event of a decline in Arab flows.

D. Prospects For Economic Recovery

Prospects for economic recovery will depend heavily on GOS political will and determination to proceed energetically with its medium-term program for economic and financial reform. This program, together with the Sixth Development Plan for the period 1981 through 1985, provides a sound basis for Senegal's economic recovery. The policy reforms prescribed have been discussed widely and have emerged from a dialogue between the GOS and its major donors, particularly the IMF and the World Bank. Through the promotion of structural change, Senegal should be able to progressively re-establish financial equilibrium while stimulating economic growth.

A slowdown in the consumption rate of households and the public sector should, with the assistance of a policy of maintaining positive real interest rates, stimulate domestic savings as a percentage of GDP, which have declined steadily since 1975. The impact of investment on economic growth is expected to be enhanced through an increase in the rate of investment, and more importantly, through a redirection of investment to directly productive sectors, and in particular, agriculture. Measures are being taken to expand exports by: (1) increasing productivity and reducing costs in the groundnut sector, (2) stimulating growth in the fishing sector through modernization of Senegal's fleet, motorization of traditional fishing boats and expansion of fish processing and marketing capacity, (3) emphasizing exports, of products where Senegal has some potential comparative advantage, like market garden produce, phosphate fertilizers, cotton textiles, cement, and agriculture machinery. Equally important are efforts to limit growth in imports through: (1) the promotion of domestic food crop production, based on a policy of increased producer prices for food crops and of improved marketing and distribution arrangements, (2) the recovery of the livestock sector, (3) progressive price increases for imported food, such as rice and wheat, and (4) price increases to limit consumption of imported oil and the development of alternative energy sources such as solar and eolian power, peat and if possible exploitation of domestic oil resources.

Medium-term projections for the pattern of economic growth were made through 1985 in the context of the Sixth Development Plan. (See Annex A - Tables 2 and 2A.) These projections imply a nominal rate of growth of 12.7% per annum and a real growth rate of 2.6% (in CFAF terms). Prospects for the primary sector, at least through 1985, assume only 1.1% annual real growth, with the fishing sector expected to contribute about 60% of this projected increase. Agriculture and forestry are likely to stagnate over the next three years

The secondary sector is assumed to grow more quickly than any other sector of the economy at a real annual rate of 4% between 1982 and 1985. Major contributors are expected to be: construction (32% of total growth), manufacturing (33%), and energy (21%). These results would be consistent with the projected sectoral breakdown of investments under the Sixth Development Plan, which provides for 34% of total investments to be directed to the secondary sector. The GOS also expects that recent changes in the investment code and other measures to promote private sector involvement will also begin to bear fruit during this period.

The tertiary sector is traditionally the largest component of Senegal's GDP, accounting for slightly over one-third. Commerce is the principal contributor with just under 60% of GDP in this sector derived from this activity. Although the rate of growth of the tertiary activities is expected to decrease slightly, this sector will most probably grow at a real annual rate of about 3% through 1985. Tourism is also assumed to account for a significant part of this real growth. About 22% of investments under the Sixth Plan are to be channelled to the tertiary sector, primarily for transport and telecommunications projects (approximately $235 million).

Personal services, which include both domestic services and public sector salaries, are projected to grow only slightly, at 1.7% per annum in real terms between 1982 and 1985. This trend would be a departure from earlier years and reflects GOS intentions to limit public sector hiring, as well as to maintain wage increases at levels compatible with projected growth in GDP and domestic consumption.

In view of the relatively low growth prospects through 1985, and the GOS experience with its Economic and Financial Recovery Plan since 1980, it is clear that: (1) economic stabilization is likely to take considerably more time than originally anticipated, (2) stabilization remains the most urgent task facing Senegal today, and (3) given the necessary pace of adjustment, substantial external assistance is both warranted and required over the next three to four years.

Senegal's past record with respect to economic policy reform is a good one. Subsidies on consumer goods have been practically eliminated as part of an overall policy of maintaining true economic pricing. The GOS has moved to reduce the parapublic sector through the liquidation of over twenty companies, through the transfer of four companies to private ownership, and through the promotion of private sector participation in the form of joint ventures. The government's withdrawal from manufacturing activity is particularly pronounced, with only four of an estimated 300 companies currently state-owned. A new foreign trade policy has been adopted to limit import growth and to promote exports through a system of fiscal levies on imports, and subsidies for nontraditional exports. Producer prices have been increased substantially, and major reforms designed to increase productivity and reduce costs in the groundnut sector have been introduced.

Senegal is currently experiencing some difficulties with respect to the implementation of its standby agreement with the IMF; following President Diouf's election to a full term of his own, the GOS has publicly reaffirmed its commitment to economic reform. To a large extent, the failure to meet performance criteria in December can be directly linked to an unexpected deterioration in world prices for groundnut products and continued high interest costs on outstanding debt, exemplifying the economy's vulnerability to external shocks. It should also be recognized that it is extremely difficult, and in some cases it would be self-destructive, for a government to remain insensitive to election politics and continue to introduce highly unpopular economic austerity measures immediately prior to national elections. Now that President Abdou Diouf has been democratically elected with the impressive majority of 84%, it is expected that his new government will act quickly to increase the pace of policy reform in conformity with Senegal's previous achievements.

The donor community, particularly through increased nonproject assistance, has assisted Senegal in its process of emphasizing policy reform and more efficient economic management. Given current economic conditions, many donors have expressed the view that the development impact and economic returns to nonproject aid are considerably more promising than for many investment activities. The tightness of the GOS budgetary situation is expected to remain for several years, which has serious implications for the availability of recurrent cost financing. Thus, since 1980 the World Bank, France and to a lesser extent Canada, Germany and the U.S., have been extending more significant amounts of nonproject assistance. An $18 million U.S. contribution for FY 1983 is not only essential to Senegal's balance of payments position but would also enhance the U.S. ability to participate more effectively in ensuring Senegal's economic future through support for the restructuring of the economy.

V. USE OF LOCAL CURRENCY

A. The Approval Procedure

All requests for financing specific local currency activities, prior to being sent to the Joint Local Currency Management Committee for approval, will have obtained the approbation of the GOS technical ministry. For the rural roads activity described below it is the Ministry of Equipment. Once this step is completed the Joint l/c Management Committee will review and approve the activity proposal in line with the criteria set out in Annex F. The major task of the l/c Management Committee will be program management in nature, rather than technical. It will have a responsibility to examine such things as the adequacy of the budget for the level of effort proposed, whether provisions for quarterly financial and progress reports are clear, whether evaluation and audit has been properly provided for, etc. Copies of the criteria will be made available to the technical ministries preparing activity proposals so that these requirements will have been met prior to submission of the proposal to the Committee for approval.

The Government has suggested that the use of the existing joint GOS/USAID Local Currency Management Committee already established to review and approve the Title III local currency activities. It is chaired by the Ministry of Plan and has three other members--Finance, Commerce and USAID. The Committee which has been functioning for over a year now in its present form, is operating successfully. Some enlarging of its mandate may be necessary, as well as the provision of additional staff support to allow the Committee Secretariat to handle the increased workload from this and other local currency programs.

B. The Rural Road Maintenance and Improvement Activity

1. Objective

Local currency generated under this program, approximately $5.0 million in CFAF, will be utilized for maintenance and upgrading of Senegal's rural road network in the three main geographic areas of joint USAID/GOS cooperation (i.e. the River Basin, Sine Saloum, and Casamance). In order to provide maintenance for the full range of World Bank financed rural roads, some maintenance work has been included in the Thiés and Louga regions. Adequately maintained feeder roads are vital to the development of agriculture production, and provide other social and economic benefits to the nation and to the otherwise isolated villages and regions they serve.

2. The activity

Local currency funding will provide for a two year activity under which a total of 1082 kilometers of rural roads will be maintained, repaired or upgraded. Some 728.5 kilometers of rural roads will receive routine or periodic maintenance, and 353.5 kilometers will receive upgrading. The latter group will be limited to rural roads which support specific development activities where the absence of upgrading would limit the economic return on the investments already made (e.g. irrigated perimeters, integrated rural development sites, village level cooperatives, etc.) The specific sites have been studied by Louis Berger International. These field trips plus existing

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studies done for AID and the World Bank, as well as information provided by the Public Works department (BCEOM, Harza, etc.) form the basis for the evaluation. Annex G contains the results of the survey including the economic justification for the specific feeder roads being proposed by the Government for upgrading, and for the specific roads being proposed for annual and periodic maintenance.

Four groups of roads to be improved were evaluated and included in the project (see Annex G)

		Length Kilometers
Lower Casamance -	Pidac area:	124
Lower Casamance -	Pidac area/Zone 9:	78.5
Senegal River Valley -	Matam area:	108
Senegal River Valley -	Bakel area:	43
	TOTAL	353.5

The economic rates of return are favorable to excellent, varying between 12.57 and 31.77 percent in the normal situation. A sensitivity analysis was performed and demonstrated that only in the worst case situation (increase in investment costs of 10 percent; decrease in agriculture benefits of 10 percent) are two of the rates of return below 10 percent. The summary of this economic evaluation is presented in Annex G.

The World Bank has found that road maintenance is among the activities yielding the highest rates of return, frequently yielding returns greater than 100 percent for highways.[1] The roads to be maintained are listed by region below:

Region	Length-Kilometers
Sine Saloum	231
Thies-Louga	193.5
Casamance	229
River Basin	75
Senegal Oriental (27)	
Fleuve (48)	
TOTAL	728.5

The kinds of economic benefits expected from consistent maintenance are explained in more detail in Annex G, but might be summarized as follows:

- reduced vehicle operating costs;
- reduction of losses and spoilage of produce and other transported goods;
- continuation of agriculture production benefits due to the feeder roads;

1 International Roads Federation. World Highways (Newsletter) Vol. XXIII. Washington, D.C., October 1982.

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- prolongation of road life and postponement of the need for infrastructure renewal; and

- reduction of eventual renewal and periodic maintenance costs.

3. Execution

It is expected that the project will be carried out under the aegis of the Public Works Department using its Rural Roads Maintenance Brigades, its regional Public Works offices, and private contractors. The exact combination is to be determined. One of the conditions precedent to disbursement of funds for this program will be that the Public Works Department provide an acceptable plan for execution of the project, with guarantees of equipment availability and a detailed description of the equipment to be used.

Some $542,000 in local currency has been set aside for the purchase of spare parts and materials available on the local market. This funding will allow the Government to put back into service some equipment now sidelined. Other equipment is expected to come from the equipment parks of the Regional Public Works offices, and additional equipment financed by German credits, and the upcoming World Bank loan. A substantial part of the work of transporting cement, laterite, clay and other materials will be done by the private sector. So while there are some equipment requirements, given the simplicity of the routine and periodic maintenance planned, and the basic level which improvements are envisaged, only a minimal additional amount of foreign exchange will be required. This amount will be manageable from existing or expected resources.

4. Other donor consultation

This project has been worked out in consultation with the World Bank which is presently negotiating its Fifth Highway project with the Senegalese Government. The Bank project will concentrate on the maintenance of the existing road network of some 14,000 kilometers. The principal thrust will be the care of the primary and secondary road system, thus USAID's emphasis on maintenance of rural feeder roads complements the objectives of the highway project.

5. GOS self-help and future financing

While the financing provided under this PAAD is for a carefully selected activity covering two years, the Government views feeder road maintenance as a medium to long-term, essential nation-wide activity. The GOS hopes that its collaboration with USAID on this activity will at least continue over the time span of the four year World Bank Fifth Highway project which will start in the summer of 1983. GOS self-help, apart from salaries of staff, manpower on the brigades and equipment mentioned above, will include its matching contribution due in early fall 1983 to a revolving fund managed by the Public Works Department (400 million CFAF) which will be funded by the World Bank this summer (assuming the loan is approved). The Bank expects to fund the revolving account in early summer to allow the preparations for the fall maintenance work to begin immediately. All further contributions to the revolving fund will be pari passu with the World Bank and GOS contributions being deposited at the same time.

For a continuing USAID participation in Senegal's feeder roads maintenance program, the USAID expects to establish with the GOS a program for its financial participation along the lines of that reached with the World Bank this year. As stated in the report in Annex G, adequate engineering and other data exists for the current program. However, for additional contributions, proper arrangements would need to be made for the execution of the design and technical studies needed for an expansion of the activity.

Some 35 million CFAF ($100,000 in local currency) has been earmarked for a Feeder Roads Study. While adequate technical studies and documentation have been available for the 1082 kilometers of roads proposed for maintenance and upgrading, in this PAAD, additional feeder (rural) roads will require economic and technical studies.

6. Estimated activity disbursement

Estimated activity disbursement are estimated as follows:

	IN CFAF	In US $
Maintenance of 728.5 kms of Feeder Roads	234 115 750 CFAF	$ 668 902.14
Improvement and Maintenance of 335.5 kms of Feeder Roads	1 092 154 400 CFAF	$ 3 120 441.15
15% Inflation and Inforeseen	198 940 523 CFAF	$ 568 401.49
	1 525 210 673 CFAF	$ 4 357 744.78
Feeder Roads Study	35 000 000 CFAF	100 000.00
Spare parts	189 789 327 CFAF	542 255.22
	1 750 000 000 CFAF	$ 5 000 000.00

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VI. PROPOSED COMMODITY IMPORT PROGRAM

A. Objectives

There are four objectives to this proposed Commodity Import Program.

1. Balance of payments support

As mentioned in the Macroeconomic Justification (Section III), Senegal's balance of payments situation is in serious difficulty for the time being and the amount of dollars which will be saved by this CIP will be welcomed by the GOS.

2. Promotion of U.S. exports on the Senegalese market

Although the Senegalese market is small, this program should be an occasion for U.S. exporters to have their products tested in a traditionally French-oriented import market, and to create new commercial relations which could, hopefully, be expanded over time.

3. Generation of local currency funds

The local currency generation will be utilized for a project of maintenance and improvement of rural roads.

This project is developed in consultation with the World Bank which is presently negotiating its Fifth Highway Loan which will be exclusively for maintenance of Senegal's road network. Since its thrust is on primary and secondary roads, the joint GOS/USAID local currency activity for feeder roads is complementary and very much needed

4. Influence on road maintenance policy

A major policy point with the Government will be the necessity to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network (including rural roads) in a satisfactory condition, and that these budgetary provisions, over the next few years, take priority over the building of new roads be they primary, secondary, or feeder.

B. Commodities to be Financed

All items listed as eligible in the AID Commodity Eligibility Listing - 1981 Edition, as revised, (Handbook 15, Appendix B), will be eligible for financing under this grant. Special emphasis will be placed on the expansion of the agriculture equipment sector, to meet the expected demand as this sector expands, in conjuction with the GOS's overall goals. In addition, insurance, transportation and related technical services will be eligible for financing. AID Regulation 1 applies to commodities, insurance and transportation costs.

C. Environmental Rationale for Categorical Exclusion

The Determination of Categorical Exclusion (Annex H) recommends that a categorical exclusion be granted because this is a Commodity Import Program grant which can be excluded from the environmental procedures requirement, in accordance with AID Regulation 16, Section 216.2(c)2(ix). The program will provide balance of payments support to the GOS. AID will not have prior "knowledge of specific commodities to be financed nor control during implementation of the commodities or their use in the host country".

Local currencies generated from this CIP will be used to support the GOS program of road maintenance and repair of feeder roads. So as to ensure that the GOS is advised on AID environmental concerns, the joint GOS/USAID Management Committee will be briefed on AID environmental and road construction guidelines with such materials as the USAID publication, Environmental Design Considerations for Rural Development Projects (Chapter II - Rural Roads October 1980) and a brief French translation of Regulation No. 16.

D. Program Implementation, Administration and Evaluation

1. Program implementation

a. Authorized source of procurement for Commodity Import Program

The authorized source and origin of commodities to be financed under this grant is AID Geographic Code 000, U.S. only.

A waiver request is included in Annex J, for ocean transportation, from Geographic Code 000 to Code 899, Free World.

b. Implementation plan

(1) USAID PAAD authorization schedule:

	Date
PAAD Design Team Fielded (Dakar)	3-4/83
PAAD Design Completed (Dakar)	5/83
PAAD Authorized (Washington)	6-7/83
Grant Agreement Signed (Dakar)	8-9/83

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(2) Commodity Import Program Schedule - $5 Million

Steps	For Direct Reimbursement Procedure		For Standard Import Procedure
1.	8-9/83	Commodity Procurement Instruction (CPI) issued by USAID	8-9/83
2.	9-10/83	GOS issues instructions to importers re requirements for both reimbursement and standard import financing	9-10/83
3.	9-10/83	Financing Requests (FR) submitted by GOS to AID/W via USAID separately for issue of a Direct Reimbursement Authorization (DRA) and a Letter of Commitment (L/COM)	9-10/83
4.	10-11/83	AID/W issues DRA and L/COM	10-11/83
5.	11-12/83	DRA and L/COM received by USAID and furnished to GOS	11-12/83
6.	xxxxxx	Initial letters of credit (L/C) initiated by importers, 25% deposit made by importers, and Bank guarantee for remaining 75% deposit obtained. Funds transfered to Central Bank	12/83-6/84
7.	12/83	Initial documentation package submitted by GOS to AID/W through USAID for reimbursement	xxxxxxx
8.	2-3/83 84 ?	Initial reimbursement payment made by AID/W to GOS	xxxxxxx
9.	xxxxxx	Payment made by US bank to supplier under L/COM against initial L/C	3 - 9/84
10.	xxxxxx	Importer notified by local bank that goods shipped and suppliers paid. Importer informed that remaining 75% deposit due no later than 6 months	3 - 9/84
11.	xxxxxx	Importer deposits remaining 75% of value of l/c; funds transfered to Central Bank	9/84-3/85

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2. Program Administration

a. Administrative responsibility

(1) USAID/Senegal

(a) Supply Management Office(SMO)

- The USAID/Senegal Supply Management Officer, under the direction of the USAID/Senegal Director, and in cooperation with support offices in AID/Washington, will have direct responsibility for USAID coordination with the Ministry of Finance/Central Bank in monitoring and expediting procurement of commodities and related services under the CIP. Specific responsibilities include:

- Drafting information/brochures for potential suppliers in the U.S. and for importers in Senegal about the opportunities and financing procedures of the CIP.

- Reviewing with the Central Bank on a monthly basis the documentation being submitted for reimbursement, and advise, as necessary.

- Reviewing with the local banks (approved applicants) at least monthly the progress being made in opening of letters of credit and generation of local currency countervalue.

- Maintaining contact with the private sector importer community to motivate use of the available AID funds in the interest of promoting trade expansion and to assist in resolving problems that may arise between importer and suppliers and banks.

- Maintaining frequent communication with M/SER/COM in AID/W on documentation and credit matters, and request assistance in contacting suppliers when problems in interpretation of AID procurement regulations arise, or when special documentation is required.

(b) Project Officer

The USAID officer responsible for this Grant, under the direction of the Chief, Agriculture Development Office, will be responsible for coordinating, in conjunction with other USAID offices, the program implementation and use of the local currency generated by this CIP. He/she will be the U.S. representative on the joint GOS/USAID Management Committee set up for this purpose. Specific responsibilities will include:

- Assisting the GOS in preparation of its proposals to the Committee for assistance, primarily for rural road maintenance, with some upgrading permitted.

- Monitoring, in conjunction with the Central Bank and the SMO, the rate of imports and the generation of local currency.

- Reviewing expenditures from local currency-funded activities in conjunction with the Central Bank and Ministry of Finance.

- Reviewing changes in procedures on expenditures, as required, with the Central Bank and Ministry of Finance.

- Representing USAID on a joint GOS/USAID committee set up to review descriptions and budgets for proposed activities.

- Preparing quarterly and annual reports summarizing the activities.

- Participating in the evaluation of the Grant as scheduled in the overall GOS/USAID Evaluation Plan.

(2) <u>Government of Senegal</u>

The entity directly responsible for the administration of both procedures to be used in this CIP, the Direct Reimbursement Financing and the Standard Financing procedures, will be the Central Bank. An existing office in the Central Bank is already managing the World Bank's Structural Adjustment Loan and the Development Credit Program, which are similar in nature and goal to AID's proposed CIP. The utilization of this office will help ensure preparation and submission of the reimbursement packages and, after being reimbursed by AID, the immediate generation of local currency.

b. <u>AID procurement procedures</u>

For the CIP portion of this PAAD, private sector procurement procedures, in accordance with AID Regulation 1, Section 201.23, call for competitive negotiated procurement. It is required that the importer solicit quotations or offers from a reasonable number of prospective suppliers, and consider all quotations received. Solicitation of offers from more than one supplier is not required when the importer is already the supplier's authorized distributor or dealer.

(Note: No procurement involved for direct reimbursement - see Section f. below.)

c. Related technical services

Commodity-related services will be eligible for financing under the Standard Financing Procedures portion of this grant provided that the cost does not exceed 25% of the cost of the commodities, or $50,000, whichever is less. Services directly related to commodity purchases include training for operation and maintenance, equipment installation and start-up.

All costs covering these services must be included on the proforma for the commodities being purchased, and both will be paid for by one letter of credit.

d. GOS import procedures

In August, 1981, Senegal rescinded its old import laws and executive orders to allow for unlimited importation from all sources and all origins. The exceptions to this are for those goods which are included in the quota system (which protects indigenous industries), those for which prior authorization to import 's required and those which are on the list of prohibited items. Goods imported from member countries of the Economic Council of West Africa can be imported without limit and can be exempted from quotas, prior authorization and prohibition by the Ministry of Commerce.

When needed, the Minister of Commerce may establish annual quotas for certain goods.

Any person/company intending to import and/or export goods must have a valid importer/exporter card. This card is issued by the Ministry of Commerce. The application for this card must include:

(1) A general information sheet concerning the person/company requesting the card.

(2) A certificate of enrollment in the Commerce Register or the Trade Register.

(3) A certificate of payments of patent taxes or of being end user.

(4) An attestation from the Office of Family Allowance and Workmen's Compensation indicating the amount of contributions deposited during the last year.

(5) An attestation from "The Senegalese Retirement Institute (ISRI)" of the amount of contributions deposited, will be necessary if the company is liable for this.

(6) A declaration that an accounting system is kept.

(7) An attestation of contributions certifying that the requestor regularly pays income tax, patent taxes and has been assigned a contributing account number (which is issued by the Ministry of Finance).

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(8) An attestation from the Exterior Financing Division stating that the requestor has never been sentenced for infractions of the legislation or the currency exchange regulations.

e. Value of transaction

The minimum transaction value has been established at U.S. $10,000. No maximum limitation has been specified. USAID reserves the right to concur on any transaction in excess of 25% of the standard procedures allocation of this grant.

f. Financing procedures

Procurement and Financing procedures will be implemented in two ways simultaneously, the Direct Reimbursement method of financing and the Standard Financing procedures.

The Direct Reimbursement procedures method is proposed to generate foreign exchange quickly for immediate needs. AID will reimburse the GOS for imports that were purchased beginning in Senegal's FY 83 (July 1, 1982). These imports must be eligible items from AID's Commodity Eligibility Listing, 1981 edition. A maximum of $2.5 million will be allocated for this method of financing.

The GOS will submit to USAID invoices for eligible products imported from the U.S., beginning July 1, 1982. M/SER/COM/SE will review these documents for compliance with applicable AID regulations. A "Certificate to AID" will be sent to each U.S. supplier for signature to ensure that AID requirements were met for the transaction. The Controller, AID/W, will advise RAMC/Paris to issue a check for the approved amount, to be sent to USAID, who, in turn, will deliver it to the Central Bank, and will require a receipt. It is estimated that this procedure will take approximately two months to complete. The Central Bank, on receipt of the Direct Reimbursement check, will be expected to deposit immediately in a special counterpart account, established for this purpose, the equivalent value in CFAF at the official rate of exchange the day the check was received.

The Standard Financing Procedures, under AID Regulation 1, will simultaneously be implemented with the Direct Reimbursement Procedure. Negotiated procurement procedures as applicable to private sector CIP financing (Reg. 1, paragraph 201.23), will apply. A minimum transaction value of $10,000 will be established.

To implement Standard Financing Procedures, the Central Bank will select two local banks in Dakar, one U.S. Bank and one Senegalese or French Bank, to become the issuing banks for all letters of credit requests, for private sector financing of commodities from the U.S. Included in a Commodity Procurement Instructions (CPI), form AID 1130-1, USAID will outline the services and responsibilities required of the banks. The designated local banks must have a corresponding bank in the U.S. which is experienced in the issuance of letters of credit for international transactions. The local banks will screen importers, establish collateral (apart from the goods to be imported), verify that the imports are eligible under AID financing and are

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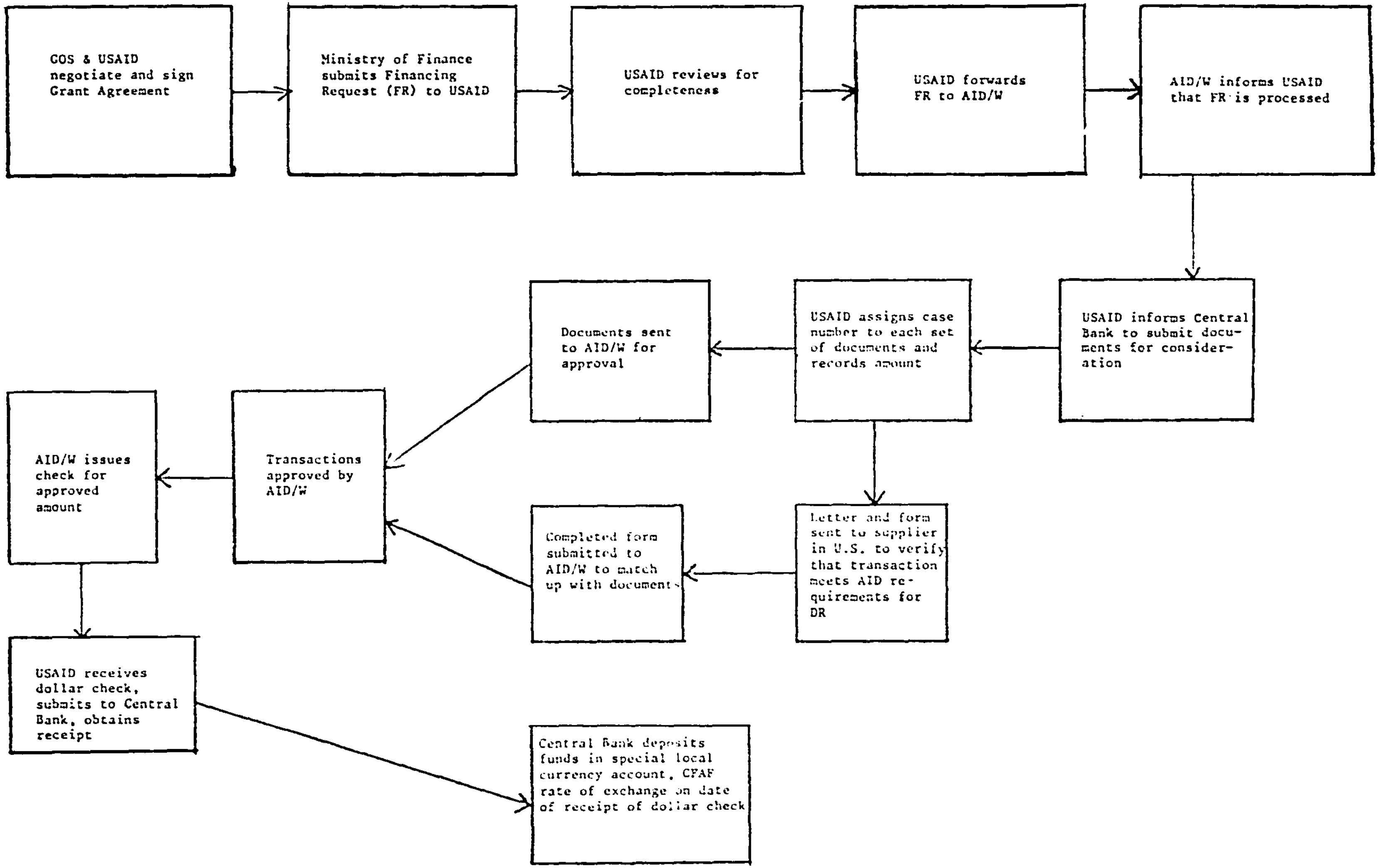
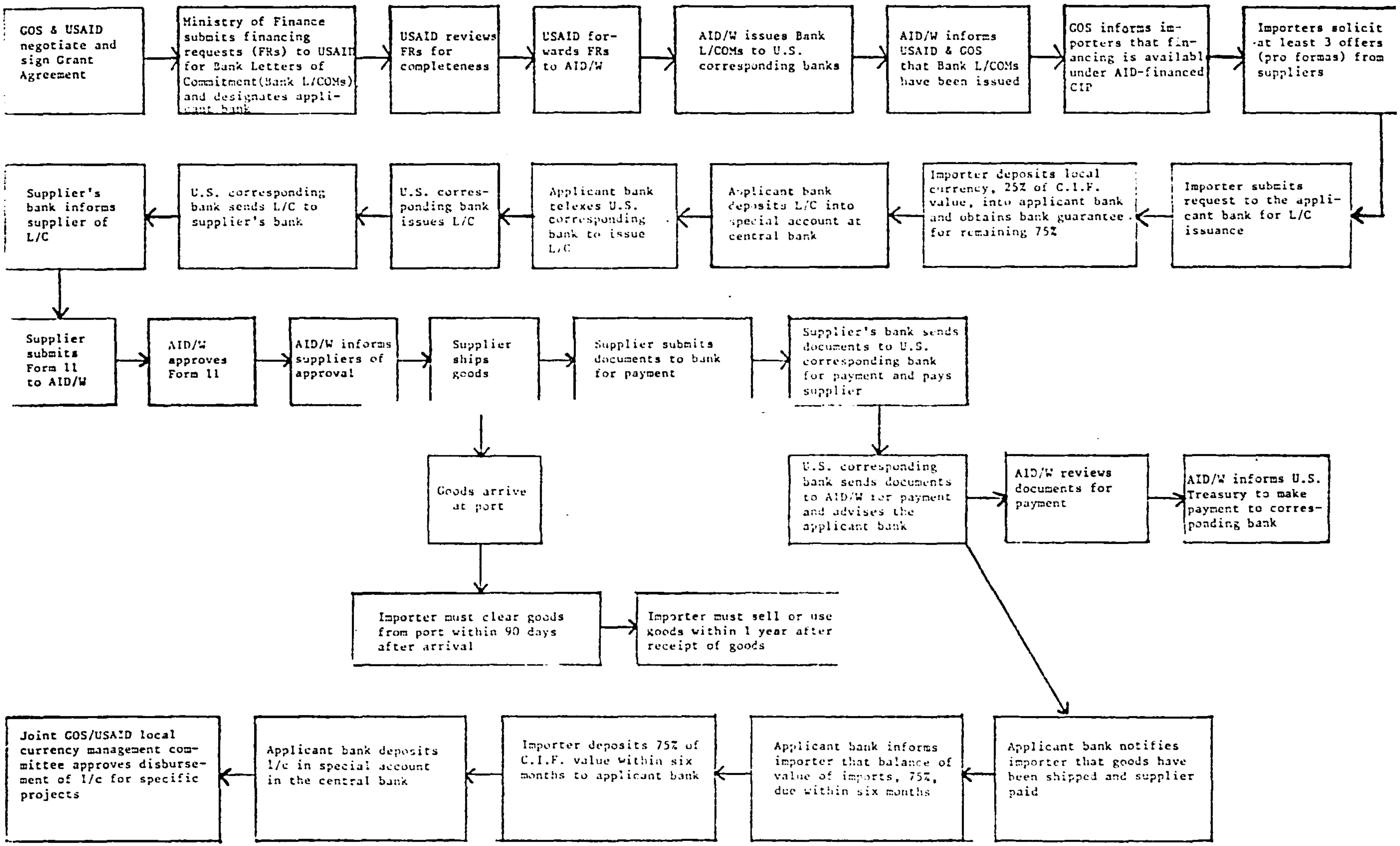
FINANCING AND PROCUREMENT CYCLE

DIRECT REIMBURSEMENT PROCEDURES (D R)



FINANCING AND PROCUREMENT CYCLE

STANDARD FINANCING PROCEDURE, PRIVATE SECTOR



not prohibited by the GOS for importation, provide monthly computer reports of status of letters of credit, status of funds, collect balance of payments, transfer funds to the Special Account for local currency for the activity defined in this PAAD, and report monthly accounting of local currency funds collected and deposited. Service charges will be competitive and reasonable. The banks will maintain adequate files for all documentation, for 3 years after the final payment for each transaction has been made. AID officials will have access to these files.

After the Grant Agreement has been signed and the CPI issued, the GOS will request AID/W, with USAID approval, by way of a Financing Request (FR), AID Form 1130-2, to issue a Letter of Commitment for the annual grant amount (less those funds designated for use under the Direct Reimbursement Procedure during the first year) to the advising banks in the U.S. All AID requirements for documentation from the supplier will be stipulated. The designated issuing bank will initiate the import letter of credit. The complete financing cycle is as follows:

(1) The Senegalese importer has received offers (proformas) from U.S. suppliers. The best offer is then selected.

(2) The importer applies for eligibility for AID-financed assistance at one of the issuing banks. The bank verifies that the proposed commodities are eligible, according to the AID Commodity Eligibility Listing, 1981 edition, as amended, and are permitted for import under Senegalese regulations.

(3) Once eligibility is determined, the importer may pay as little as 25% of the c.i.f. (cost, insurance, freight) value of the transaction, in CFAF, official rate on day of transaction. In addition, the importer is responsible for the bank's service charges, although no interest may be charged. A bank guarantee will be required for the remaining 75% of the total value of the transaction, i.e., the bank establishes the security for the additional 75% of the value, to be paid as late as 6 months after the bank receives the documents. The commodities themselves will not be used for this purpose.

(4) The importer signs the issuing bank's letter of credit agreement form. The application is approved and the letter of credit document is issued.

(5) The issuing bank forwards the letter of credit to the advising (corresponding) bank in the U.S.

(6) The advising bank delivers the letter of credit to the U.S. supplier. The advising bank notifies the issuing bank in Dakar that the L/C has been accepted. The 25% deposit for the transaction is then transferred to the special fund at the Central Bank, for allocation to the activity described in this PAAD.

(7) The U.S. supplier ships the merchandise to the buyer in Senegal.

(8) The supplier submits all required documentation to the advising bank and after review, is paid. The required documents are:

- Commercial Invoice
- Bill of Lading
- Declaration that AID emblem appears on all shipping crates
- Form AID 11, Application for Approval of Community Eligibility approved by M/SER/COM/CPS, in AID/Washington
- Form AID 282, Invoice and Contract Abstract

(9) The advising bank forwards the documents to the issuing bank in Senegal after revision and approval. The importer then is allowed six months from that date before paying the balance of 75% of the cost of the transaction, interest-free which is supported by a bank guarantee to assure payment.

(10) The importer is issued the documents necessary for customs clearance. The importer arranges for necessary customs clearance. The importer is responsible for import duties and all costs incurred in relation to customs clearance and any storage charges.

(11) When the issuing bank collects the counterpart balance of 75%, these funds are then transferred to the Central Bank for deposit in the special counterpart fund set up for this purpose.

g. Disbursement period

After the Grant Agreement has been signed by the GOS (estimated date September, 1983), the GOS will submit the Financing Requests to USAID f(transmittal to AID/W. It is anticipated that the steps required for the Direct Reimbursement procedure, from the point of reviewing documents until AID/W approves the transactions submitted, will take approximately two months. Therefore, the first check should be issued by November 1983. Documents will continue to be reviewed for eligibility until a value of $2.5 million is approved. This process should be completed in less than six months, or by April 1984.

Simultaneously, the Standard Financing Procedures will be implemented. Disbursements will be made up to eighteen months after the signing of the Grant Agreement.

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g. Disbursement Period

(1) Proposed U.S. Dollar Drawdown[1]

Cummulative Summary
U.S. $(000)

year/month		Direct Reimbursement	Standard Financing	Total Cumulative
1983	Sept			
	Oct			
	Nov	100	10	110
	Dec	200	20	330
1984	Jan	400	40	770
	Feb	600	75	1445
	March	600	100	2145
	April	600	100	2845
	May		100	2945
	June		100	3045
	July		80	3125
	Aug		30	3155
	Sept		60	3215
	Oct		120	3335
	Nov		225	3560
	Dec		300	3860
1985	Jan		300	4160
	Feb		300	4460
	March		300	4760
	April		240	5000
TOTAL		2500	2500	5000

1 On assumption that the grant agreement is signed no later than September 15, 1983.

(2) Expected Generation of Counterpart (Local Currency) Account

Direct Reimbursement Method [2]
U.S. $ (000)

Year/month		Counterpart	Cumulative
1983	Sept		
	Oct		
	Nov	100	100
	Dec	200	300
1984	Jan	400	700
	Feb	600	1300
	March	600	1900
	April	600	2500
	TOTAL	2500	

Standard Procedure Method [2]
U.S. $(000)

		25% deposit	75% balance (ave. 8 months later)	Cumulative
1983	Sept			
	Oct			
	Nov	10		10
	Dec	20		30
1984	Jan	40		70
	Feb	75		145
	March	100		245
	April	100		345
	May	100		445
	June	100		545
	July	80		625
	Aug		30	655
	Sept		60	715
	Oct		120	835
	Nov		225	1060
	Dec		300	1360
1985	Jan		300	1660
	Feb		300	1960
	March		300	2260
	April		240	2500
TOTAL		625	1875	2500

2 Equivalent value of the dollar amounts listed above will be deposited in CFAF in the special local currency amount set up in the Central Bank for this purpose.

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h. Commodity arrival, clearance and disposition

The Port of Dakar is a large, well-managed port, with adequate facilities to unload and store all types of commodities. It is anticipated that importers will be able to promptly clear their goods through customs, and it is expected that the goods will be utilized within 12 months after arrival.

3. Program monitoring and evaluation

a. The project manager will ensure preparation of a monitoring plan that will provide quarterly and annual reports by project on implementation of the grant. The reports will be designed to provide information to GOS and USAID on the composition and arrival of commodity imports, the generation of local currency, the establishment of local currency accounts, and on disbursements, by the GOS and USAID.

b. The USAID Economic Unit will keep under continuous review the macroeconomic aspects of this grant and will further monitor the GOS performance in meeting the covenants and targets agreed between the IMF and the GOS in the extension of the Standby Agreement and with the World Bank in the Structural Adjustment Loan. Quarterly reports will be made to the USAID Director of the results of the monitoring, or more frequently should developments make it desirable.

c. The Joint GOS/USAID l/c Management Committee (in addition to approving proposals for l/c financing, see VI.D.2. above), will carry out a joint review annually for the purpose of establishing, reaffirming and/or altering priorities governing the uses of funds and reviewing achievement against plans. The USAID project manager will call on USAID resources for any additional help and guidance needed for this evaluation meeting.

Following the meeting, the project manager will prepare an assessment report. The annual meeting will accomplish the following objectives:

(1) Assess the import component of the program, including types of commodities, rate of import inflows, and rate of generation of local currency.

(2) Review and make any adjustments deemed necessary for local currency funded activities.

d. Based on the information obtained from the exercises described in a. and b. above, senior management of the USAID will meet annually (or more often if required) with their senior counterparts in the Senegalese Government to discuss balance of payments, other macroeconomic issues, progress of the Economic Reform Plan agreed with the IMF and the World Bank, etc. This annual policy level review and evaluation will provide a sound basis on which the USAID can recommend to AID/W further project and program assistance. It will also provide a concrete opportunity for the USAID to encourage the Government to take the specific but difficult policy actions needed for the success of the Economic Reform Plan, and to achieve their goals in the agriculture sector.

VII. ADDITIONAL CONSIDERATIONS

A. Import Market Analysis

The Chamber of Commerce of Senegal has provided a list of approximately 200 exporters/importers. They are categorized by general merchandise, industrial and vehicle concerns. In addition, the Joint Economic/Commercial Unit of the U.S. Embassy has compiled a list of subsidiaries and affiliates of U.S. firms represented in Senegal.

A survey will be made, under the direction of the Supply Management Officer, of all commercial concerns in the Dakar area in order to identify importers and potential importers. This information will be compiled, with interests categorized by type of commodity. Contact name, address, phone and telex numbers will be included. This directory will be submitted to AID's Office of Small Business where it will be issued as an AID Importer List to all firms in the U.S. currently on the mailing list, approximately 5,400 concerns.

In the past three years the Economic/Commercial Unit has made market surveys of the fishing and food processing industries and the agriculture equipment sector. These are rapidly developing sectors, with a great import potential, due, in part, to the GOS's goal of food self-reliancy.

The consensus of importers interviewed during these studies and by the USAID staff is that suppliers are very interested in U.S. products. The lines that are carried are considered outstanding, and suppliers would like to carry additional lines, but are not aware of exactly what is available from the U.S. Therefore, it is planned to mount an intensive mail campaign in the U.S., through AID's Office of Small Business and through International Trade Centers to encourage U.S. suppliers to contact Senegalese importers.

Importers responded positively to the proposed Letter of Credit System, as, on several occasions recently, no foreign exchange has been available for U.S. Dollar drafts. The availability of U.S. Dollars for imports through this CIP would eliminate existing informal foreign exchange barriers and expedite imports, enhancing visability of U.S. products in the Senegalese market.

B. U.S. Trade Statistics

The latest trade statistics available from the U.S. Department of Commerce and from the Chamber of Commerce of Senegal are for CY 1981. Imports from the U.S. were valued at $42 million, or 8% of all GOS imports. Some $27 million or 63% of U.S. source imports was for food products.[1] Imports from the U.S. are second to France, which provides approximately 40% of all imports. While annual amounts vary, there should be ample opportunity for this modest CIP to succeed.

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1 Of this amount, $11.5 M was financed under the PL 480 Program as follows: rice $9.36 M, sorghum $.81 M, cooking oils $.6 M, dried milk $.14 M, wheat $.05 M, and other foods $.5 M. Commercial imports included sunflower seeds to produce oil, corn, wheat and edible preparations.

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Categories of commodities which have a potential for expansion include agriculture equipment and spare parts (1981 = $3.4 million); industrial raw materials, machinery and spare parts (1981 = $1.04 million); and transportation equipment and spare parts (1981 = $3.5 million).

C. Absorptive Capacity

In the past 5 years, U.S. exports to Senegal have varied in a range between 40 and 60 million dollars. However, as mentioned earlier, more than 60% of these amounts are agriculture products. However, still some 15 to 20 million dollars worth of nonfood products are imported from the U.S. each year. The $5 million proposed commodity import program represents therefore between 25 and 35 percent of U.S. nonfood imports. In practice, it is in fact half that percentage since the program will finance direct reimbursement for $2.5 million worth of U.S. exports on the 1983 calendar year and $2.5 million on the 1984 calendar year. Therefore, there is no problem for the Senegalese economy to absorb this small amount of imports.

D. Impact on U.S. Balance of Payments

The short-term impact of this grant on the U.S. balance of payment position is negligible.

E. Relationship to Overseas Private Investment Corporation (OPIC) and U.S Export Import Bank Activities

1. OPIC

OPIC's insurance coverage in Senegal is not significant.

OPIC Insurance Exposure in Senegal (September 1982)
($000)

	Inconvertibility	Expropriation	War
Current % of Worldwide Exposure	360 0.03	5007 0.21	3792 0.18
Maximum under contract % of World-wide Exposure	7612 0.28	7674 0.20	6460 0.19
Pending Applications	5226	7948	7948

2. Export-Import Bank

The Export-Import Bank has several loans in Senegal totaling $17 million at the end of 1982, mostly with GOS. Part of the reimbursement on these loans has been rescheduled recently.

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The proposed Commodity Import Program should not overlap with Export-Import Bank activities in Senegal. However, AID will coordinate closely with the Bank and the American Embassy, Dakar to assure that the AID grant does not finance items which the Export-Import Bank has already agreed to finance.

F. Internal Financial Effects

Given the small amount of local currency generated and inserted into the government budget, and given the length of time (1 to 2 years) to expend the local currency, no measurable internal financial effect is expected.

G. Past Performance and Current Status of Nonproject Import Programs (PL-480 Title III)

1. Objectives

The purpose of the three-year (FY 1980-82) $21 million Title III program was to provide encouragement to the GOS in key policy areas. The specific policies being supported were (1) decentralization of agriculture development through specialization of the regional development agencies (RDAs) on extension services, (2) strengthening the role of village sections, (3) management and conservation of natural resources, and (4) review of marketing and pricing policies. A one-year extension is proposed for FY 1983.

In FY 1983 this program, along with two other program activities (the ESF funded CIP 685-0262, and the SDF funded fertilizer import program 685-0249), will provide substantial BOP support, and within the framework of the IMF/IBRD/GOS economic plan encourage the GOS to make those difficult economic and social decisions necessary for success.

Title III requires development of the activities to be undertaken at the time the Title III program proposal is prepared using the local currency proceeds. The six activities designed and now underway are (1) agriculture policy studies, (2) construction of cooperative storage, (3) physical infrastructure for decentralized agriculture research, (4) physical infrastructure for rural technical schools, (5) dune fixation, and (6) a small agriculture development fund. As can be seen, the activities were chosen to further support the policies focused on under this program.

2. Usage of commodities

The rice which is imported under this program is purchased using a letter of credit/commitment system, with USDA's Commodity Credit Corporation funds. The GOS also must set up letters of credit for, and arrange, the ocean transportation. The rice is sold into the commercial market and funds are deposited into a special account.

The GOS agency responsible for this is the Price Equalization and Stabilization Fund (CPSP), and imports all commercial rice. They arrange for the purchase of the rice in the U.S., and its transportation, arrange the letters of credit, receive, store and sell the rice, and deposit the proceeds into the Special Account. As a result of a previous evaluation, it was found that the CPSP is the only entity which has authority to deposit funds in the Special Account for Title III proceeds.

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The CPSP is competent to undertake its functions and has performed reasonably well, except for one problem. The rice imported has been at a price and at a dollar-CFA exchange rate which has made it difficult-to-impossible to sell at a price which would cover all their expenses (special account, transportation, handling, etc.) and still be at an acceptable price to the consumer. Even after lowering the price to slightly above that of commerical imports, the pace of rice sales is too slow to provide sufficient funds to the Title III activities when they are needed. This has resulted in two problems: slowdown in flow of funds in activities and a shortfall in proceeds.

3. Usage of local currency generations

As mentioned above, under Title III, the activities to be funded with local currency proceeds were designed as part of the total Project Paper.

Each activity has a separate account to which funds are deposited from the special account. Each activity has a yearly budget, and disbursements are scheduled quarterly. (Not the actual practice because of lack of proceeds). The Management Committee, comprising a representative of the Ministry of Plan as Chairman, Minister of Finance as Permanent Secretary, Minister of Commerce and USAID, approve the budgets, review progress and requests for funds and have sole authority to disburse funds from the special account into the activity accounts.

One of the problems which has caused confusion has been the initial LOP budgets set only in dollars. Activity managers were not exactly sure the CFAF amount they were allotted and mistakenly assumed that, as the exchange rate increased, their activity budgets would also increase. As the result of an evaluation recommendation, activity budgets have been set in CFAF. There remains the problem of possible "windfall" proceeds due to increase with the exchange rate. In discussions, the concensus was to have a shelf-item activity which could be used if extra funds do become available and use any windfall as contingency for the portfolio. At present, exchange between the dollar and the CFA franc, a shortfall is not anticipated in the account.

4. Current Status

The first Title III program covered a period of three years (FY80-82), amounting to $21 million, $7 million per year. In order to avoid a gap in support, in FY83, a one-year, $8 million, extension to this initial Title III program is being proposed. Commodities under this extension are sorghum and rice and possibly wheat and powdered milk. This extension will give the GOS and USAID the time to investigate the best solution to the problem of commodity and vehicle (Section 206 or Title III) in the future.

The three-year Phase II Food for Development program is targeted for FY84-86, at $10 million per year, for a total of $30 million. Based on experience gained during the FY83 extension, commodities might include sorghum, rice some wheat and powdered milk.

5. Conclusions

There has been one main problem with Title III: PL-480 rice (20% broken) is generally too expensive and not similar enough to Senegalese consumer habits. Other problems of management have been ironed out through the annual evaluation recommendations and yearly agreement amendments.

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The Title III program has shown that a commodity import program is viable in Senegal. The GOS has the potential both for importing, selling and depositing local currency proceeds from the U.S. commodities, and for implementing activities with those proceeds.

VIII. BACKGROUND DESCRIPTION

A. Political Framework

Senegal is a nonaligned, moderate, functioning democracy now in its twenty-fourth year of independence. Following nearly 21 years of development under the leadership of former President Leopold Sedar Senghor (who retired in 1980), Senegal in February 1983 held its first seriously contested multi-party elections with 5 parties competing for the Presidency and 8 parties presenting slates for the 120 seats in the National Assembly. Acting President Abdou Diouf was overwhelmingly elected as President to his first full term in office with 84% of the vote, and his socialist party (PS) captured 111 out of the 120 national assembly seats. Over 50% of Senegal's voters actually went to the polls, and the elections were carried out in a quiet and orderly fashion throughout the country. This is indeed a historic event not only for Senegal, but for Africa as a whole (especially when one considers how few multi-party states are left, and of these, how few would allow free elections. Senegal is probably unique in this regard.) With this election, Senegal established its credentials as the leading democracy on the Continent.

This strong win at the polls should help the government face up to the vital, but difficult decisions ahead in overcoming its economic problems (described in section B below), many of which are structural. These decisions will require courage and firm political will to carry out. The Government of Senegal has already demonstrated its political will over the last two years and willingness to take tough decisions when it stopped all agriculture credit, raised prices of millet and groundnuts, increased taxes on imports, such as rice, sugar, cooking oil, and gasoline, reduced fertilizer subsidies, abolished one rural development parasatal (ONCAD), and reduced personnel in two others. These are only a few of the major reforms. However, as important as these actions are, they are only initial steps on the long road ahead.

Senegal's economic and social difficulties are indeed grave; however, its strong commitment to democratic practice and the rule of law bodes well for the nation's ability to face up to these challenges.

On the international scene Senegal has been a positive force for moderation and reason. It has worked closely and effectively with other moderate states in the UN and other forums. (For example, Senegal is the only black African state which provided military personnel as part of International Peace keeping forces in Shaba, Lebanon, Chad, and the Sinai.) Senegal has been in the forefront of moderate African nations trying to contain Libya's aggressive actions in Africa, and has played a key role in the OAU and other Pan African forums. Senegal, in July 1981, was instrumental in putting down the Marxist-inspired coup attempt in the Gambia.

Senegal's geographic location on the western most tip of Africa has a special interest for the United States, and is of significant strategic importance in world terms. Senegal demonstrated this importance in World War II, and in the Falkand crisis in 1982. Dakar serves as the only emergency landing site for the NASA space shuttle immediately after launching. Senegal has among the best air, seaport, and communications facilities in West Africa.

Within its West African subregion, many of Senegal's neighbors are politically insecure, and the country represents an island of stability and moderation. The GOS has been an active and highly regarded member of the CILSS and in working with the Paris Club. It is therefore in the U.S. and other friendly countries' self-interest to help Senegal preserve its moderate views and democratic tradition. Not only is this help vital to Senegal's ability to continue its own progress economically and socially, but it will also set an important example for its immediate neighbors and the West African subregion as a whole.

As further testimony of the importance of Senegal to the West in general and the U.S. in particular, over the past four years a number of senior U.S. Government officials and Members of Congress have called in Dakar. These visitors have included both Vice Presidents - George Bush and Walter Mondale, and former Secretary of State Alexander Haig.

To sum up, Senegal's influence as a nonaligned country extends well beyond its borders, and because of its mature, centrist posture, and its quiet but effective role in international affairs, it is held in esteem by many less developed countries, Western Europe and the United States.

B. Government of Senegal Development Setting and Strategy

1. Background

Senegal's economy has been generally declining since the great drought of 1973 which followed five years of substandard rains. In the ensuing years of that decade, the fragile and rebuilding Senegalese economy again shook under tremendous strain, this time as a result of:

a. the sharp fall-off in world prices for peanuts and phosphates, two of which were then the country's principal exports;

b. rising import prices for food and manufactured goods as well as for petroleum; and

c. an overly ambitious and relatively unproductive public investment program coupled with extensive government intervention in the economy.

By 1977, the slide began to assume crisis proportions. Severe droughts during three of the four years, 1977-81, adversely affected cereals output and drastically reduced the production and exports of peanuts, the backbone of the economy. The four year average in these years was 22% below the twenty year average. As Senegal's foreign exchange earnings fell sharply, the real GDP per capita declined over the period by an estimated 18%.

In an effort to cushion the adverse impact on consumption and public investment, the GOS turned to heavy foreign borrowing and subsidizing of consumer imports, forgiving farmer debts, and increasing government employment. As a result, in 1981, Senegal's foreign debt reached over 60% of GDP. Debt servicing would have required 28% of export earnings if not for emergency debt rescheduling. The budget deficit for FY 1980-81 reached 25% of domestic revenues. The current account deficit reached 21% of GDP (up from 3.6% in 1977). Domestic savings turned negative and, nonetheless, real per capita consumption fell. In short, Senegal was facing its worst economic and financial crisis since independence in 1960.

The GOS response was the adoption of an Economic Reform Plan ("Plan de Redressement") introduced in December 1979 and developed in close consultation with the IMF and the World Bank. The French Government has given this plan its full support. The purpose of the Reform Plan is to reduce the balance of payments and budgetary deficits, thus stabilizing the economy during an initial two-year period. Coupled with large-scale extraordinary assistance[1] which has been made largely contingent upon GOS adherence to a far-reaching series of reforms, the Reform Plan also aimed at clarifying and reducing the role of the public and parastatal sector, so as to enable it to operate more efficiently in defined areas, and at reducing the constraints on private sector production and marketing activities in agriculture, industry, and services. The Reform Plan constitutes the principal framework and reference point for assistance of all major donors to Senegal. The principal monitors of Reform Plan progress are the IMF and World Bank.[2]

2. Agriculture sector

Seventy percent of the population of Senegal lives in the rural areas. In a normal year this population produces agriculture products (principally peanuts) accounting for more than half of the country's total export earnings. In fact, in 1981, more than 50% of the population was, in one way or another, dependent on the peanut industry for its livelihood.

While technical assistance for an up-to-date assessment of the agriculture sector is provided for under the agriculture PAAD (685-0249) using Sahel Development funds (SDF), (the last assessment being the World Bank study issued in 1979), the principal problems are described below:

a. Water shortages and irregularities

In the short term, insufficient rainfall is the most significant factor influencing agriculture development in Senegal, followed closely by government policies which have served as disincentives to production. For the crop years 1979/80 and 1980/81, rains were well below the long-term average, in some areas less than 50% of the norm. Farmers subsisted on a combination of their meager yields and stocks accumulated in the good production year 1978/79. In 1980/81, poor rains led to near complete failure of the peanut crop, placing extreme pressure on the GOS to maintain crucial food and import levels. As a result of depleted food reserves in villages and households, limited peanut seeds of good quality, and frustration over marketing through cooperatives, the area planted for the 1981/82 peanut crop was approximately 10% below normal. In 1982/83, the rainfall was adequate yet food production was down due to a variety of reasons, including inadequate fertilizer use. For this 1982/83 crop season, crop growth or yields: peanut production was 891,000 tons (vs. 790,000 the previous year), millet was 497,440 tons

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1 See Annex A, Table 19 for a detailed breakdown of other donor assistance.

2 An IMF Extended Fund Facility permitting Senegal to purchase SDR 184.8 million over a three-year period was negotiated. The World Bank also made a Structural Adjustment loan of $60 million.

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(vs. 736,000 tons), and paddy rice was 105,225 tons (vs. 103,000 tons). While attempts to ease water deficiencies through irrigation are very much part of Senegal's planning, over the medium-term, it is rain that will remain the key variable.

b. Soil depletion

As the level of agriculture production in Senegal has increased, the demands for crop nutrients have progressively exceeded the supply from natural weathering and build-up of soil material. A portion of the plant needs have been traditionally "supplied" by leaving the land in fallow. There are local norms for different soils and crops allowing for 1 or 2 years of production after fallow periods of 3 to 20 years. However with increasing population and greater demand for agriculture production for food and commerce, the periods of fallow have been shortened or eliminated so that farmers are now "mining" the soil nutrient resource. In some zones, farmers have reduced this effect somewhat by crop rotation and the use of animal manure when it is available. Neither of these practices compensate for the demands for high yields so that signs of nutrient deficiency can be observed in field crops. The IFDC has estimated the plant nutrient removal in an average year at 30,222 tons of N, 11,383 tones of P_2O_5, and 46,834 tons of K_2O. Using current grades of fertilizer materials, it would be necessary to apply more than 250,000 tons of commerical fertilizers to replace these nutrients. The critical deficiency in soil nutrients is impressively demonstrated by field trials of various fertilization practices. And the strong demand for fertilizer provides a clear indication that farmers are well aware of the problem and its solution.

c. Overdependence on a single crop

In normal years, the peanut crop accounts for 40 to 50% of Senegal's annual export earnings, which now exceed a total of $370 million. Because of a lack of water, irregularity in distribution of improved and maintained seed varieties, reduced fertilizer use and poor management of soil resources, increased volume of peanut production is not promising. Further, since millet and sorghum, the subsistence staples of the rural populations, are usually planted by the same farmers who plant peanuts, competition for land is another source of limitation to peanut production. Finally, the GOS is also reluctant to increase its dependence on the peanut crop, given future projections in the world oilseed market which indicate that competition from other types of oils make Senegal's products less attractive. Consequently, the GOS has turned to the Senegal River Basin and the Casamance region to develop and increase food production in general and rice production in particular.

The agriculture sector in Senegal also includes significant livestock production in the northern and eastern pastoral zones as well as cotton production in the eastern and southern zones. Commercial fruits and vegetables exist in all regions of the country for local fresh markets, though these enterprises are of modest consequence in the economy of the agriculture sector. The GOS also wishes to seriously examine the ways and means of diversifying production in the Peanut Basin to include maize, soy beans, leguminous crops, and vegetables over the next ten years. However, for the next decade at least, Senegal is likely to remain a basically mono-crop country, its fortunes bound to its peanut fields.

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d. <u>Malfunction of agriculture institutions: Regional Development Agencies and cooperatives.</u>

The institutional support structure of the agriculture sector has been largely influenced by the Regional Development Agencies (known as RDA's)

(1) Société d'Amenagement et d'Exploitation des Terres du Delta (SAED-Senegal River Basin Region);

(2) Société de Developpement et Vulgarisation Agricole (SODEVA - Peanut Basin);

(3) Société pour la Mise en Valeur de la Casamance (SOMIVAC - Casamance);

(4) Société de Developpement de l'Elevage dans la Zone Sylvo-Pastoral (SODESP - Central Plains);

(5) Société pour le Developpement des Fibres Textiles (SODEFITEX - Eastern Senegal).

From independence in 1960 through 1978, the GOS had progressively placed greater responsibilities and resources in the hands of the RDA's as a means of achieving growth in the agriculture sector. These agencies were to provide farmers with improved technology, necessary inputs, improved access to markets and in general, to expand the acreage of the principal crops. By the late 1970s, the RDA's had become cumbersome bureaucracies that were intimately involved in the rural sector and were a burden to, rather than a leader of, agriculture development. In 1978, the RDA's consumed 15% of the country's Gross Agriculture Product. In the Peanut Basin, the GOS parastatal, ONCAD, controlled the supply of all agriculture inputs and marketing of peanuts. This organization, corrupt and inept, was abolished as an initial measure under the Reform Plan in 1980.

The cooperatives in Senegal, particularly in the Peanut Basin, have earned a bad reputation. This comes largely from the fact that the peanut cooperatives, economically and traditionally the most important of Senegalese cooperatives, have been dominated by a centrally-controlled agriculture and marketing policy. The result has been effective elimination of farmer participation in cooperative management which in turn has provided an open door to corruption of the cooperative system and has led to the alienation of cooperative members.

The cooperatives and their members suffered from a number of deficiencies, including the undue control by local "notables," especially the president and weigher, who were usually literate. The membership are basically illiterate and lack numeracy skills necessary to understand cooperative records. Members have no voice in selection of which members receive credit despite the fact that all members are responsible for the cooperative's debts. Cooperatives have had no control over produce once it leaves the coooperative even though losses incurred in transport and handling are charged to the cooperative's account. Furthermore, cooperatives here had no voice in determining the price of their products and no say in the quantity, quality, or price of inputs to be made available to them.

The conclusion that can be drawn from the above list is that the farmer does not have control over the local coooperative upon which he is dependent for his factors of production, nor does he have an effective voice in determining the policies of the economic system that relies heavily on him and peanut production for survival.

The combination of burdensome institutions and unresponsive cooperatives has been a major discouragement to the Senegalese farmer.

e. Failure of the agriculture credit system

Farmers in Senegal use agriculture credit for the purchase of seeds, fertilizer, implements, pumps, draft animals and cattle for fattening. Credit had been extended in kind by cooperatives and by the RDA's, with farmers' accounts being settled by the delivery of produce or payment in cash. However, basic management and audit systems have been inadequate and the system gradually built up a debt roughly equal to the value of one year's peanut production, or approximately 56 billion CFAF ($ 160 million). Recent village survey work also revealed that as much as 50% of the registered farm debt is either inadequately recorded or perhaps falsely entered in the books. To offset the adverse affects of bad weather, and to respond to farmers' complaints about the management of the credit program, the GOS has twice forgiven debts in the past five years. This debt forgiveness has seriously undermined the integrity of the agriculture credit system, making reform all the more essential.

The austerity imposed by the Economic Reform Plan has forced the GOS to restrict funds available for credit. As a result, the USAID has observed such signs of reduced farming intensity as increased use of poorer quality village-grown seeds, lower rates of fertilizer use, and the continued use of old and unrepaired implements. These suggest that production is being constrained by the restricted credit supply. Visits to villages by USAID staff during the last agriculture campaign confirmed the severe hardship to farmers consequent to the lack of credit.

Given the importance of rural credit and the need to have an up-to-date assessment, other funding has been provided in the Agriculture Development Assistance PAAD (685-0249) for a study of rural credit and savings. It also provides for the possibility of local currency assistance for the newly created National Agriculture Credit Bank (Caisse Nationale du Credit Agricole du Senegal--CNCAS) which also mobilizes savings.

f. Agriculture pricing

During the past two years, the official market prices paid to producers of peanuts, rice and millet have risen an average of about 25%. As expected, farmers appear to have responded by increasing production, generally by investing more labor and management attention. Despite the farm-gate price increases, however, certain crops were diverted from normal marketing channels and sold for higher prices in other localities. For example, some rice producers along the Senegal River sold their surplus in Mali at 80 CFA/kg. (vs. GOS price of 60 CFA/kg).

Current GOS plans indicate that costs to the farmer for fertilizer, seeds and farm implements are likely to rise with the removal of State control over the factors of production, including a reduction in subsidies. It is not yet apparent if price increases in these items will be coordinated with further farm-gate price increases in order to maintain the production incentives that have been established for the current agriculture season. The narrowing of incentives could again become a major constraint, as it was in the past when prices were kept low to provide the Government with a substantial margin after the sale of products on the world market. The GOS used this balance to subsidize urban industry and provide increasingly large food imports for urban populations.

g. Deterioration of the rural road network

While Senegal has one of West Africa's best road networks (primary, secondary, and feeder roads), since 1981 it has had great difficulty in finding the budgetary resources required to maintain the system. The limited resources that have been made available have gone to the hardtop and graveled primary and secondary roads with virtually no funds available for rural roads. In addition, some of the unimproved feeder roads essential to the success of integrated rural development programs, irrigated perimeters, cattle fattening projects, etc. have not been improved due to lack of funds. This situation has hampered or will preclude obtaining the full return on the substantial investments already made, or in the process of completion.

Even more serious is the fact that every year without routine or periodic maintenance, the potential cost of repair increases geometrically, and the rate of the deterioration of the existing feeder roads accelerates. The World Bank is alarmed, and plans to devote its entire Fifth Highway Loan (now under negotiation) to maintenance of Senegal's road network-primarily concentrating on primary and secondary roads. As a result, it has welcomed USAID cooperation utilizing the local currency generated under this PAAD for rural road maintenance. (See Section V "Use of Local Currency" for a fuller description of the l/c program for rural road maintenance and improvement, and Annex G for an economic evaluation of this program.)

3. Key elements of the GOS strategy to deal with agriculture sector problems

As set forth in the Reform Plan, the key elements of the GOS strategy for revitalizing the agriculture sector are:

a. reorganization of the seed distribution and marketing systems;

b. reorganization of the Rural Development Agencies (RDA's) to decentralize their management, reduce operating costs, increase efficiency and liberate areas for private sector initiative;

c. encouragement of private sector initiative in areas of marketing and agriculture services;

d. greater involvement of cooperatives and village level groups in decision-making related to commercial agriculture;

e. revamping of agriculture credit;

f. revising the structure for the agriculture research program;

In 1980 and 1981, the GOS initiated actions of a practical nature to implement elements of the above agriculture strategy. For example:

- Peanut prices were raised 11% from 45.5 CFA/kg. to 50 CFA/kg.

- The GOS, in 1980, began negotiations of revised terms of reference and budgets for the RDA's. Known as Program Contracts ("Contrat Plan"), the new agreements are to clearly state the responsibility of the GOS for support of staff and operating budgets. In return, the RDA's must commit themselves to specific production targets, reduce the number of staff, and withdraw from certain activities so as to create opportunities for private sector replacement. Program contracts negotiations were concluded with SAED containing explicit statements of production objectives and reorganization. SODEVA also has reduced its staff by 50%.

- The government farm supply agency (ONCAD) was disbanded and approximately 400 workers were removed from government roles. Steps to have the private sector handle the peanut trade were undertaken when the GOS placed this responsibility with the oil manufacturers.

- A working group was set up in 1980 to define policy and institutional objectives for agriculture credit and in 1981 a plan for the complete revision of the agriculture credit program was drawn up by the Prime Minister's Working Group for Agriculture Credit (of which USAID is a member).

- Plans were begun for a major program of farming systems research which was put into effect in 1981.

- Other reforms, such as increases in consumer prices (and reduced subsidies) of bread, cooking oil and petrol products, averaging nearly 25% were initiated.

In 1982; while the GOS remained faithful to the main lines of its Reform Plan, particularly in the agriculture sector, it had some difficulty remaining within the financial ceilings for credit and budgetary expenditures, and in meeting the targets set out in the Standby agreement with the IMF and some of the conditions of the World Bank structural adjustment which were set to support the IMF's monetary targets.

The dramatic fall in the world price of peanuts aggravated the foreign exchange deficit, and increased the budgetary deficit.

As 1982 was a pre-election year in a multi-party democratic context (elections were held at the end of February 1983), the imposition of additional spending restraints after the courageous steps taken in 1980 and 1981 became extremely difficult for the government. As a result, the GOS did not make all of its 1982 targets, and foreign exchange releases under both the IMF Standby and World Bank Structural Adjustment loans were held up, pending resolution in 1983, after elections. (Section IV, "Macroeconomic Justification" discusses this situation in more detail.)

4. Other sectors

Before 1960, Senegal was the administrative, commercial and industrial center of the West African Federation,[1] and enjoyed all the benefits conferred by that status. Independence deprived the country of this role, and during most of the sixties, Senegal had to adjust its administrative structure, transit activity, and its infant industry to better match the more limited needs of its domestic market. With a secondary sector contributing about 23% of GDP in 1979, Senegal can be characterized as a semi-industrialized country, by African standards. However, the average growth of the industrial sector since 1960 has been a rather modest 4% per annum (p.a.) on average.

The principal lines of industrial development have been production and processing of primary products (phosphate, cement, groundnut oil), and light manufacturing industry for import substitution. In 1984, a privately run, world-class fertilizer facility, International Chemical of Senegal (ICS), will come on stream using the locally mined phosphate, and mixing it with imported sulfur to make Diammonium Phosphate (DAP) and Triple Super Phosphate (TSP). While the complex is mainly for export, part of the production will be sold on the domestic market. First year exports are expected to be 213,000 mt of fertilizer and 200,000 mt of phosphoric acid p.a. It is a mixed corporation with equity capital of 225 billion CFAF ($66 million) held by Nigeria, Ivory Coast, Senegal, India, the Islamic Development Bank, and private banks and firms. Principal loans have been made to ICS by the World Bank, Islamic Bank, Caisse Centrale, African Development Bank, IFC, EIB, EDF, and OPEC. The secondary sector, including the phosphate mine, employs about 7% of the labor force. Highly skilled and managerial positions in most large and medium-scale enterprises are occupied by expatriates. The future of the mining and industrial sectors is moderately promising. In mining, in addition to phosphates (estimates show 45 years of reserves at the current production rate of 1.5 million tons p.a.), Senegal has modest offshore oil reserves and large iron ore deposits of a quality that would seem appropriate for a modern steel industry. However, oil and iron ore reserves have not been fully explored. Ore deposits are located far from existing transport centers; consequently, their development would involve very high investment costs in transport infrastructure, and commercial exploitation is unlikely to start during the present decade. With respect to manufacturing, there are still some possibilities for developing import substitution industries. More importantly, the country's political stability, its well-developed urban and port infrastructure, its proximity to Europe, and its strong political and economic links with major European countries, could make it attractive to foreign investors and foster the development of an export-oriented industry.

At least two other areas hold more promise. Senegal has rich territorial waters with a large and diversified fish stock; in fact, the domestic fishing and fish processing industry is one of the few truly dynamic branches of economic activity.

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1 Under colonial rule, the Federation was comprised of the Francophone countries of Benin, Guinea, Ivory Coast, Mauritania, Sudan (Mali), Upper Volta and Senegal.

Also, the pleasant coastal climate almost throughout the year, the abundance of attractive beaches, and the development of efficient airport facilities, have served to encourage the growth of a vibrant tourism industry which has contributed significantly to the real growth in the tertiary sector.

5. Social factors

Senegal's population shares most of the characteristics of African demography: a rapid rate of growth (officially 2.8% p.a.), a high dependency ratio (slightly below 1:1) reflecting a very young population structure, and a low but increasing rate of primary school attendance (over 40% in 1980). More importantly, the rate of demographic growth seems to be accelerating, and the rate of growth of the working age population (2.2% p.a.), though also increasing, is distinctly below the overall population growth rate. The attendant social costs of these basic features in terms of demand for education, health, other basic services, and for jobs create potentially serious problems within a slow-growing economy such as Senegal's.

Other socio-demographic factors more specific to Senegal have a direct bearing on the economic environment. One is the large concentration of population in the Dakar area, now a highly developed city and administrative and cultural center of close to one million people, with a large university and several other institutes of higher education. Another is the impact of Senegal's long historical exposure to the Western world. The most perceptible consequences of these two factors are a strong bias towards a "European" pattern of consumption, a well-organized labor force with highly vocal unions, and a liberal political system with officially recognized and influential opposition parties. The overall impact is the continuing popular demand for higher wages, job security, and various forms of social welfare all of which are expected to be provided by or through the Government. Thus, labor costs are high by international standards, in a country which is often considered as a labor-abundant economy.

C. USAID Assistance Strategy

1. Overview

The USAID Senegal CDSS for FY83, submitted in January 1981, elaborated the Mission strategy for responding to the economic situation in-country. This strategy was accepted by the Africa Bureau, per State Cable 77365, on March 6, 1981. AID/W accepted the FY85 CDSS supplement, detailing the training and health programs in support of approved goals, on April 8, 1982 per State Cable 165374.

The FY85 CDSS update, submitted in February, 1983: (a) reviewed Senegal's progress in implementing its economic Reform Plan, now entering its third year, (b) set out the Mission's Country Development Strategy Statement related to this reform for the 1983-1987 period, (c) summarized the chief means by which the AID program would carry out the Senegal Strategy, through measures in support of policy reform, institutional development, the private sector, and technology transfer, and (d) underscored the requirement that the Mission put the programs previously approved from a policy standpoint in place during FY83 in support of the Country Strategy if the strategy is to continue to have meaning. Dialogue about policies could be vitiated if practical measures are not taken within a reasonable period of time.

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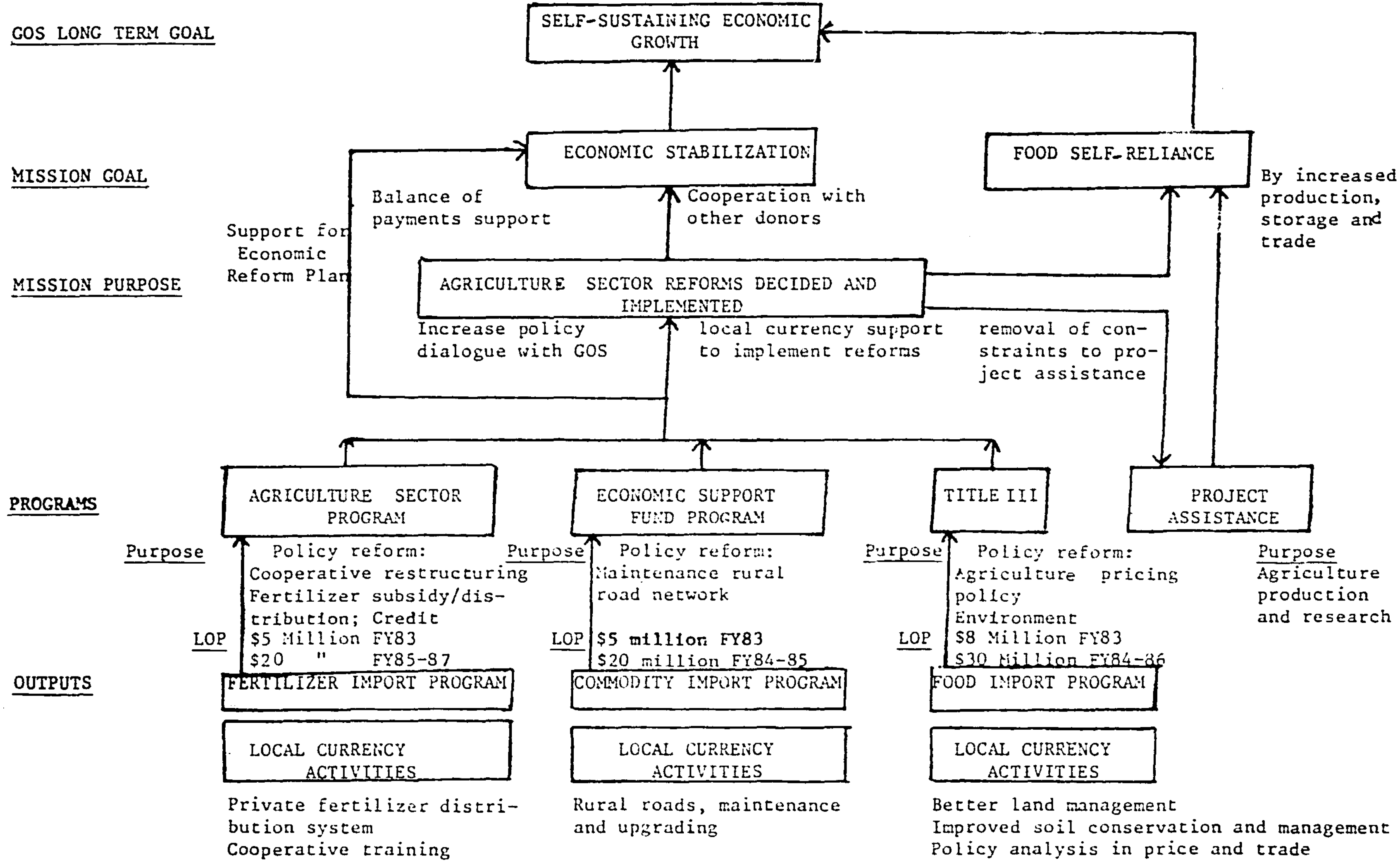
GOS LONG TERM GOAL
SELF-SUSTAINING ECONOMIC GROWTH
MISSION GOAL
ECONOMIC STABILIZATION
FOOD SELF-RELIANCE
By increased production, storage and trade
Balance of payments support
Cooperation with other donors
Support for Economic Reform Plan
MISSION PURPOSE
AGRICULTURE SECTOR REFORMS DECIDED AND IMPLEMENTED
Increase policy dialogue with GOS
local currency support to implement reforms
removal of constraints to project assistance
PROGRAMS
AGRICULTURE SECTOR PROGRAM
ECONOMIC SUPPORT FUND PROGRAM
TITLE III
PROJECT ASSISTANCE
Purpose
Policy reform: Cooperative restructuring Fertilizer subsidy/distribution; Credit
LOP
$5 Million FY83
$20 " FY85-87
Purpose
Policy reform: Maintenance rural road network
LOP
$5 million FY83
$20 million FY84-85
Purpose
Policy reform: Agriculture pricing policy Environment
LOP
$8 Million FY83
$30 Million FY84-86
Purpose
Agriculture production and research
OUTPUTS
FERTILIZER IMPORT PROGRAM
COMMODITY IMPORT PROGRAM
FOOD IMPORT PROGRAM
LOCAL CURRENCY ACTIVITIES
LOCAL CURRENCY ACTIVITIES
LOCAL CURRENCY ACTIVITIES
Private fertilizer distribution system
Cooperative training
Rural roads, maintenance and upgrading
Better land management
Improved soil conservation and management
Policy analysis in price and trade

Section VIII.B.3, "Key Elements of the GOS Strategy..." above lists a number of specific examples of actions taken by the government over the last three years. The USAID program supports the GOS Reform Plan.

Some of the highlights of USAID's assistance strategy for the period 1983-1987 are listed below. (The chart on the next page sets out graphically USAID's strategy in terms of GOS's long-term goal, Mission's goal, purpose, projects and outputs.)

2. Goal: food self-reliance

The goal of the USAID program is Senegal's achievement of the capacity to feed its people, by domestic production and by trade, even in drought years, by the close of this century. Increased agriculture production is the key in Senegal to both higher per capita income and to an improved balance of payments.

With food self-reliance the goal, the USAID program in Senegal has two principal emphases. The first is upon increased food production in ways favoring the maximum participation of the population, together with an accent upon the regeneration of soil and fuelwood resources required to cultivate and cook food products. Maintenance of a viable rural road network, an essential part of the rural infrastructure, is fundamental to the success of this program. USAID's second and related emphasis is upon the delivery of health and family planning services at local levels, both to increase the productivity of the farming population as well as to reduce, over time, the rapid annual rate of population increase, officially estimated at 2.8%. If unchecked, present demographic trends will push Senegal's attainment of food self-reliancy into the far-distant future.

3. Major targets

Towards the goal of food self-reliance, the USAID with GOS collaboration has set four chief targets in agriculture:

- the progressive decontrol and commercialization of rural production (by activating farmers' groups, streamlining the RDA's, and encouraging the private sector);

- the development of more effective agronomic practices (through improved research and extension, pricing, credit, mixed farming);

- the increase of cultivated land area (in the Senegal River basin and the Casamance Region); and

- the improved management of soil and water resources (irrigation practices in the Senegal River and Casamance River basins, land reclamation in the Peanut Basin).

The USAID assistance strategy also establishes a human development program to assure the support of, and to derive benefit from, the agriculture priorities. It recognizes that better nutrition, wider training, and readier access to primary health care are both the means and the ends of agriculture development. The strategy underlines the point that, whereas a demographic program is in the long run essential, the necessary foundation for establishing family planning services in Senegal is an affordable nutrition and health program within the reach of the general population. Accordingly, USAID plans to continue efforts begun in the late seventies to establish a model user/payer village health system in the Sine Saloum Region. Coupled with agriculture activities, the Mission will continue (based on egotiations held before the joint assessment) to establish a family health program which ultimately will depend upon rural clinics. Also, USAID will concentrate upon functional literacy and rural project management training in support of rural producer groups and village level cooperative groups. Only very recently is Senegal beginning to show evidence of a fundamental concern with the inefficiency of its primary education system. When there is a clear Senegalese commitment to reform in this area, USAID intends to review what assistance, if any, the U.S. should offer.

4. Focus of 1983-1987 program

The USAID program for 1983-1987 will be distinguished in four principal ways from that set in place between 1974-1980.

As indicated above, the 1983-1987 program gives a much more important place to program assistance. This segment is planned via:

(a) a PL-480 Title III program ($8 in FY83 and $10 million annually FY84-86),

(b) a proposed $25 million grant for the development of the agriculture sector ($5.0 million in FY83, and $20 million over three years, beginning in FY86), and

(c) a proposed Economic Support Fund grant of $5.0 million in FY83, and $10 million per year for FY84-85.

Under this program segment, the U.S. will finance essential imports and generate local currency to support food production, soils, crops, credit and savings, regeneration programs, rural road maintenance, and food and other policy studies. The financing of imports will help Senegal to stabilize its balance of payments; the major thrust of the first phase of the Reform. An import program will also assure the United States a continuing role in national policy discussions with the government and with Senegal's other major donors. (Section IV "Macroeconomic Justification", goes into this high priority need in some detail.) Program assistance is more flexible in that it provides shorter lead time in supplying balance of payments support, the time of disbursement is much shorter then in project assistance. It provides budgetary support through the l/c generation drawing on GOS resources to manage the local currency thereby reducing the amount of USAID supervisory time required.

The second major difference in the 1983-1987 program for Senegal is the emphasis AID will place upon local producer groups and the private sector. At the same time, USAID will continue to help strengthen two or three of the RDA's as extension agencies, and by this means, increase the capabilities of rural producers. USAID will also initiate additional means to strengthen the position of food producers and rural entrepreneurs. Under this program, aspects of which are described in detail in the Agriculture Development Assistance PAAD, (685-0249), AID will apply the local currencies generated from the program activities to support functional literacy training

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of village level cooperatives and local producer groups, to enlist the help of Private Voluntary Agencies with farmer groups and entrepreneurs, and after appropriate study, help the government undertake revised credit and marketing programs on their behalf. This PAAD (in Section V and Annex G) describes the l/c support to the Government's Rural Road and Maintenance Program.

A third feature of the USAID program in 1983-1987 will be its greater geographic concentration. This is necessary to increase the impact of the program, bringing its health and agriculture activities into direct proximity, and to increase management efficiency. Thus, from the six regions in which USAID is currently engaged, new funding beginning in FY85 will be focused on three regions with above-average water resources and farm production potential: the Senegal River Basin (through the OMVS programs), the Sine Saloum, and the Casamance. AID is already involved in important programs in these areas. Similarly, over the same period, USAID will reduce the number of active projects from 30 to 13, although the overall program in dollar terms is projected to substantially increase.

The fourth and final characteristic of the program is the degree to which it is based upon an intense and continuing collaboration with the Government itself, and with the major donors, including the IMF, the IBRD, EEC, and France, which are concerned essentially with the implementation of Senegal's Reform Plan. That the government of President Abdou Diouf is determined to continue his Government's close cooperation and dialogue with all donors, bilateral and multilateral appears clear from the President's major economic report to the National Assembly's Economic and Social Council on April 14, 1983 in which he strongly supported the results of the measures taken to date, and exhorted the nation to continue and increase its efforts. Earlier at the donors' conference which the government (with close IBRD support) convened and chaired in Paris in October 1981, and subsequently through the follow-up conferences on sectoral and project levels held throughout 1982, the Government showed its determination to improve donor coordination. In 1983, the Government enlisted the staff support of the CILSS and Club du Sahel for the next major meeting of the donors to discuss Senegal's agriculture sector plans and programs.

D. USAID Program Elements

While this ESF funded PAAD is for one year and it has been designed so that its local currency program is self-contained, there is also a multi-year, long-term economic development value in the proposed rural road program. Therefore, this PAAD should be considered within the context of the U.S. Assistance Strategy for 1983-87 described in Section VIII.C. above.

Within the substantive areas, goals and priorities described above, the USAID's overall program is divided basically into two elements: program and project assistance. The two programs are interrelated, mutually reinforcing and designed to support the U.S. Assistance Strategy.

1. Program assistance

For FY 1983, the proposed nonproject program totals some $18.0 million,[1] broken down as follows:

- Title III (685-0231)
  $ 8.0 million

- ESF (685-0262)
  $ 5.0 million

- SDF (685-0249)
  $ 5.0 million[1]

  Total FY83 nonproject
  $18.0 million[1]

These activities taken together at the macro-level (dollar foreign exchange) are designed to provide urgently needed balance of payments support, and to achieve the maximum leverage possible to help the GOS live up to its commitments to the IMF/World Bank, and to help put into effect more rapidly the Government's structural reforms set out in the Reform Plan. (Both are summarized in Annexes D and E.) The policy leverage made possible by the program assistance mode is enhanced because of the GOS hope for continued program support in the coming years along the lines outlined in the U.S. Assistance Strategy, VIII.C. above.

At the micro-level utilizing the imports (e.g., general commodities, direct reimbursement fertilizer), it is hoped to encourage specific reforms (e.g. distribution of fertilizer in the private sector, lowering of subsidy, regular, planned and budgeted funding of road maintenance, etc.).

Through judicious use of the counterpart or local currency generated by the import programs, GOS economic reforms can be assisted (e.g. before agreeing to the release of local currency for the support of private village level cooperatives, the government must complete legislation giving village level groups direct access to credit from banks or other lending institutions, or the GOS must provide an annual plan for rural road maintenance and improvement, including a budget, use of private contractors, in-road maintenance, etc.) For the planned local currency support for rural-based road maintenance and upgrading activity (this PAAD), the GOS will need to have agreed to fund the first tranche of its share of the highway maintenance fund being established under the IBRD Fifth Highway Project now under negotation.

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1 Of the $5.0 million SDF, $0.75 million is for two technical assistance studies. However, for balance of payments support purposes this amount is not considered as direct support. Therefore, the total amount of balance of payments support is $17.25 million as indicated elsewhere in the document.

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2. Project assistance

For FY 1983, the requested technical assistance on project assistance including regional activities in Senegal totals $23.4 million dollars and should be viewed within the context of the USAID's agriculture strategy for achieving food self-reliance by increasing production, storage and trade, and the supporting activities in rural public health and human resource development such as:

- Cereals production. (Cereals I and Cereals II projects)
- Livestock production. (Bakel and SODESP projects)
- Research. (Ag. Research & Planning Project; Renewable Energy and Casamance project)
- Storage (Grain Storage Project)
- Private Rural Initiatives. (PVO Community and Small Enterprise Development Project)
- Regional Projects. Senegal River Basin (OMVS) and Gambia River Basin (OMVG) Crop Protection, etc. These regional activities provide significant benefits to Senegal.
- Rural Public Health and Family Planning
- U.S. Embassy Self-Help Fund
- Human Resource Development
- Title II-CRS Administered Maternal Child Health Program and Resettlement Family Assistance 1

Therefore, the grand total for program and project assistance is $41.4 million. While the projects and program assistance activities have separate definable roles, they are complementary one to the other, and should be considered as a total package of resources (or level of effort) provided by the U.S.

1 Title II-CRS is $7.0 million of the total project of $23.4 million.

ANNEX A

STATISTICAL TABLES

ANNEX A: STATISTICAL TABLES

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TABLE 1

SENEGAL: SELECTED MACROECONOMIC INDICATORS
(1975-1982)

	1975	1976	1977	1978	1979	1980	1981	1982
Real GDP Growth Rate in %	7.5	9.1	- 2.9	- 3.9	10.1	- 1.5	- 2.4	9.8
Domestic Savings as % of GDP	12.3	8.4	8.7	3.7	4.2	1.4	- 0.1	3.0
Consumption as % of GDP	87.7	91.6	91.3	96.3	95.8	98.6	100.1	97.0
of which: public consumption	14.7	15.6	16.1	18.4	19.1	21.2	21.4	19.7
Investment as % of GDP	17.8	16.5	17.5	17.4	18.6	17.2	20.6	20.0
Imports of Goods and Services as % of GDP	41.9	44.3	52.0	44.0	49.0	41.6	47.2	45.9
Exports of Goods and Services as % of GDP	36.4	36.3	43.2	30.3	34.5	25.8	26.4	28.0
Deficit of Trade in Goods and Services as % of GDP	5.5	8.0	8.8	13.7	14.5	15.8	20.8	17.9
Population in Millions	4.98	5.11	5.25	5.40	5.55	5.70	5.86	6.03
Real GDP/Capita Growth Rate in %	4.7	6.1	- 5.3	- 6.6	7.1	- 4.1	- 5.0	6.6

Source: GOS Department of Statistics. Ministry of the Economy and Finance

TABLE 2

SENEGAL: PROJECTED GROSS DOMESTIC PRODUCT BY TYPE OF ACTIVITY

(1982-1985)

(In Billions of CFAF)

Economic Activity	In Current Prices 1982	1983	1984	1985	In Constant 1977 Prices 1982	1983	1984	1985
A. PRIMARY	183.2	194.4	200.6	202.9	125.7	126.5	128.1	129.8
Agriculture	104.6	109.1	108.8	104.2	66.6	66.6	66.6	66.6
Livestock	44.3	47.1	51.0	55.2	35.0	34.0	35.0	36.0
Fishing	21.4	24.2	26.2	28.3	15.0	16.3	16.9	17.6
Forestry	12.9	14.0	14.6	15.2	9.1	9.6	9.6	9.6
B. SECONDARY	202.1	235.6	269.5	299.7	109.5	114.1	119.0	122.8
Mining	16.0	20.0	20.8	21.8	9.1	9.5	9.5	9.6
Groundnut Processing(1)	0.6	8.6	10.3	12.2	12.2	13.4	13.4	13.4
Energy	14.6	15.0	23.4	27.5	10.6	11.6	12.8	13.4
Construction	44.0	52.1	59.3	66.8	23.9	25.8	26.8	28.2
Other Industries	126.9	139.9	155.7	171.4	53.7	54.3	56.5	58.2
C. TERTIARY	308.7	362.4	412.3	468.9	217.9	224.8	233.1	237.3
Transport & Communications	57.2	67.1	76.3	86.8	40.4	41.6	43.1	43.9
Commerce	178.1	209.1	237.9	270.6	125.7	129.7	134.5	136.9
Other Services	73.4	86.2	98.1	111.5	51.8	53.5	55.5	56.5
D. PERSONAL SERVICES (2)	129.6	139.7	150.9	162.9	89.2	91.0	92.4	93.8
E. GDP	823.6	932.1	1033.3	1134.4	540.0	556.4	572.6	583.7

Source: GOS Department of Statistics, Ministry of Economy and the Finance

(1) The low value added figures for groundnut processing in current prices are explained by the fact that domestic producer prices are above world prices for groundnut products.

(2) Includes public sector salaries

TABLE 2A

SENEGAL: PROJECTED GROSS DOMESTIC PRODUCT BY TYPE OF ACTIVITY
(1982-1985)
(Summary in millions of U.S. Dollars)

	In Current Prices				In Constant Prices			
	1982	1983	1984	1985	1982	1983	1984	1985
A. PRIMARY	544.0	540.0	527.9	533.9	373.2	351.4	337.1	341.6
B. SECONDARY	600.0	654.4	709.2	788.7	325.1	316.9	313.2	323.2
C. TERTIARY	916.6	1,006.7	1,085.0	1,233.9	647.0	624.4	613.4	624.5
D. PERSONAL SERVICES	384.8	388.0	397.1	428.7	264.8	252.8	243.2	246.8
E. GDP	2,445.4	2,589.1	2,719.2	2,985.2	1,610.1	1,545.5	1,506.9	1,536.1
MEMORANDUM ITEM: CFAF/$	336.8	360.0	380.0	380.0	336.8	360.0	380.0	380.0

TABLE 3

SENEGAL: EVOLUTION OF VALUE ADDED IN THE PRIMARY SECTOR

(Billions of CFAF)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 estimated
Cereals	8,9	12,3	9,1	14,1	28,2	23,5	23,0	18	36,9	25,1
Groundnut	9,0	19,5	10,2	16,4	35,9	52,3	43,1	15,5	37,1	28,0
Cotton, tobacco	2,5	3,1	3,0	3,4	4,1	5,3	6,0	5,9	6,4	6,0
Tubers	0,4	0,6	0,7	1,1	1,9	1,5	1,5	1,8	1,6	1,5
Fruits, vegetables	3,3	3,0	3,2	3,5	4,3	4,0	2,7	2,7	3,3	3,1
AGRICULTURE	24,1	38,6	26,2	38,5	74,4	86,5	77,0	43,0	85,3	63,7
Livestock	13,7	14,1	15,1	19,9	25,6	32,5	37,7	38,2	41,8	42,3
Fishing	8,9	10,8	13,8	15,8	16,8	18	19,7	22,4	17	27,5
Forestry	4,8	5,8	6,3	7,4	7,8	8,4	9,9	9,5	10,9	10,7
PRIMARY	51,5	69,2	61,4	81,6	124,6	145,8	143,7	113,1	155,0	142,2
% Agric in primary sector	47	56	43	47	60	60	54	38	54	43
GDP	216,1	240,7	243,1	299,4	359,2	402,8	419,9	403,7	468,2	450,7
% Agric in GDP	11	16	11	13	21	21	18	11	18	14,2
% Primary in GDP	24	29	25	27	35	36	34	28	33	32
CFAF/$	261.2	256.3	235.4	222.2	224.3	248.5	235.3	209.0	201.0	225.8

Source: GOS Sixth Development Plan, Ministry of Planning and Cooperation

TABLE 4

SENEGAL: PROPOSED INVESTMENT FOR SIXTH DEVELOPMENT PLAN

(1981 - 1985)

(In millions of CFAF) (1)

SECTORS	TOTAL COST	PROGRAMMED EXPENDITURES				DOMESTIC FINANCING		EXTERNAL FINANCING	
		81-82	82-83	83-84	84-85	Amount Cost	% of Total	Amount Cost	% of Total
A. PRIMARY	106,652	28,898	30,198	25,794	21,762	20,554	19.3	86,098	80.7
Agriculture	55,169	16,371	14,874	12,431	11,493	12,672	23.0	42,496	77.0
Livestock	10,977	2,262	3,310	2,745	2,660	1,402	12.8	9,575	87.2
Fishing	11,414	3,012	3,543	2,799	2,060	2,000	17.5	9,414	82.5
Forestry	10,665	2,540	3,330	2,666	2,129	2,325	21.8	8,340	78.2
Water Management	18,427	4,713	5,141	5,153	3,420	2,155	11.7	16,273	88.3
B. SECONDARY	151,851	45,387	51,881	39,312	15,271	33,662	22.2	118,189	77.8
Energy	25,044	6,010	6,207	6,406	6,421	9,206	36.8	15,838	63.2
Industry, Mining	123,562	38,735	44,892	31,972	7,963	23,175	18.7	100,387	81.3
Handicrafts	3,245	642	782	934	887	1,281	39.5	1,964	60.5
C. TERTIARY	99,281	28,021	29,304	21,019	20,937	11,563	11.6	87,718	88.4
Commerce	2,000	519	397	560	524	700	35.0	1,300	65.0
Tourism	12,396	4,241	2,709	3,306	2,140	3,640	29.4	8,756	70.6
Transp. & Telecom.	84,885	23,261	26,198	17,153	18,273	7,223	8.5	77,662	91.5
D. SOCIAL SECTORS	89,620	20,563	24,935	22,729	21,393	32,706	36.5	56,914	63.5
Urbanisation	15,673	3,211	5,091	4,441	2,930	3,091	19.7	12,582	80.3
Housing	16,000	2,055	3,115	4,241	6,589	8,200	51.2	7,800	48.8
Health	7,715	1,270	2,519	2,327	1,599	3,126	40.5	4,589	59.5
Education	22,900	8,042	7,276	4,540	3,042	7,814	34.1	15,086	65.9
Research	10,000	3,099	2,884	2,300	1,717	1,394	13.9	8,606	86.1
Other	17,332	2,886	4,050	4,880	5,516	9,081	52.4	8,251	47.6
E. TOTAL or AVERAGE	447,404	122,869	136,318	108,854	79,363	98,485	22.0	348,919	78.0

Source: GOS Sixth Development Plan, Ministry of Planning and Cooperation

(1) CFAF/$ exchange rate is 312.1 for 1981/82, 361.9 for 1982/83 and 370.0 for 1983/84.

TABLE 4A

SENEGAL: PROPOSED INVESTMENT FOR SIXTH DEVELOPMENT PLAN
(1981-1985)
(Summary in Millions of U.S. Dollars)(1)

	TOTAL COST (1981-1985)	DOMESTIC FINANCING (2)		EXTERNAL FINANCING	
		Amount	% of Total	Amount	% of Total
A. PRIMARY	292.2	56.3	19.3	235.9	80.7
B. SECONDARY	416.0	92.2	22.2	323.8	77.8
C. TERTIARY	272.0	31.7	11.6	240.3	88.4
D. SOCIAL SERVICES	245.5	89.6	36.5	155.9	63.5
E. TOTAL OR AVERAGE	1,225.7	269.8	22.0	955.9	78.0

Source: GOS Sixth Development Plan, Ministry of Planning and Cooperation.

(1) Average CFAF/$ exchange rate used for period from 1981-1985 is 365 CFAF=$1.00.
(2) Domestic financing from public sources is expected to be about 56% of the total and from private sources aboout 44%.

TABLE 5

SENEGAL: REAL PRODUCER PRICES AND WORLD COMMODITY PRICES FOR SELECTED COMMODITIES 1975-1981

(1975 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982 estimated	1983 projected
Groundnuts									
World Price	100.0	100.0	90.4	109.4	139.9	113.1	111.7	80.7	80.7
World Price Adjusted (1)	100.0	99.4	83.3	89.3	98.6	70.7	72.0	52.7	53.8
Domestic Producer Price	100.0	100.0	100.0	100.0	100.0	109.6	120.5	120.5	120.5
Real Domestic Producer Price (2)	100.0	99.0	88.5	86.2	78.1	78.8	82.0	74.4	70.9
Cotton									
World Price	100.0	100.0	166.1	157.6	142.4	146.1	169.3	169.0	165.0
World Price Adjusted	100.0	99.4	153.0	128.7	100.4	91.3	109.2	110.4	110.0
Domestic Producer Price	100.0	104.2	104.2	104.2	117.0	127.7	144.7	149.0	149.0
Real Domestic Producer Price	100.0	103.2	92.2	89.8	91.4	91.9	98.4	92.0	87.6
Rice									
World Price	100.0	70.8	73.7	105.7	90.5	112.7	132.1	113.8	112.2
World Price Adjusted	100.0	70.1	67.6	85.9	63.7	70.4	85.8	74.4	74.8
Domestic Producer Price	100.0	100.0	100.0	100.0	100.0	100.0	124.1	124.1	144.6
Real Domestic Producer Price	100.0	99.0	88.5	86.2	78.1	71.9	84.4	76.6	85.0

Sources: For World and producer prices IFS and GOS Ministry of the Economy and Finance
For consumer price and export unit value indexes: International Financial Statistics

(1) World prices for commodities are deflated by the index of export unit values of industrial countries.

(2) Producer prices deflated by the Consumer Price Index.

TABLE 6
SENEGAL: BALANCE OF PAYMENTS 1980-1984
(In Millions of U.S. Dollars)

	1980	1981	1982	1983 (1) estimated	1984 (1) projected
A. Trade Balance	-474.8	-454.1	-360.2	-334.7	-351.4
Exports fob	536.5	409.5	476.5	509.7	521.0
of which: Groundnut pdts.	(83.2)	(3.2)	(131.5)	(148.3)	(171.0)
Imports fob	-1011.3	-863.6	-836.7	-844.4	-872.4
B. Net Services	-120.5	-125.3	- 72.4	-155.3	-145.0
of which: Interest on Debt	(- 63.3)	(- 61.0)	(- 55.5)	(-105.3)	(-107.9)
C. Transfers	178.0	145.1	126.8	135.8	136.6
D. Current Account Balance (A + B + C)	-417.3	-434.3	-305.8	-354.2	-359.8
E. Capital Account Balance	297.4	273.8	186.5	194.7	195.8
Public Sector (net)	208.0	207.7	147.3	141.9	137.9
of which: Debt Amortization	(-120.0)	(-100.9)	(-105.1)	(- 95.3)	(- 84.2)
Private Sector (net)	89.4	66.1	39.2	52.8	57.9
C. Overall Balance of Payments (2) (D + E)	-119.9	-155.5	-119.3	-159.5	-164.0
D. Current Account Deficit as % of GDP	14.7 %	18.1 %	12.5 %	13.7 %	13.2 %
E. Overall Deficit as % of GDP	4.2 %	6.5 %	4.5 %	6.2 %	6.1 %
Memorandum Item: Exchange Rate (CFAF/$)	225.8	287.4	336.8	360.0	380.0

Sources: Senegalese Ministry of the Economy and Finance. IMF projections for 1983, and Ministry of the Economy and Finance projections for 1984.

(1) These figures assume that there will be another successful Paris Club debt rescheduling in late 1983.

(2) The difference between overall balance of payments and the sum of the current and capital account balance is made up of SDR allocations.

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TABLE 7
SENEGAL: INTEREST RATES AND INFLATION
(1975-1982)
(In percent per annum)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Normal Discount Rate	8.0	8.0	8.0	8.0	8.0	10.5	10.5	12.5	10.5
Preferential Discount Rate	5.5	5.5	5.5	5.5	5.5	8.5	8.5	10.0	8.5
Minimum Time Deposit Rate (12 months)	6.40	6.50	6.50	6.50	6.50	8.33	8.33	9.25	8.33
Maximum Lending Rate	12.0	12.0	12.0	12.0	12.0	15.5	15.5	17.5	15.5
Inflation Rate	24.8	6.8	9.1	5.9	8.5	8.4	8.0	15.0	8.0

Sources: BCEAO and International Financial Statistics.

TABLE 8

SENEGAL: MAJOR IMPORTS 1977-1980

PRODUCTS	VOLUME (METRIC TONS) 1977	1978	1979	1980	VALUE (MILLIONS OF CFAF) 1977	1978	1979	1980
Milk products; eggs, honey	17,058	14,564	13,544	12,875	3,796	3,164	3,169	3,967
Fruits and vegetables	41,976	45,617	51,172	42,703	3,497	3,202	3,783	3,644
Wheat	95,963	142,354	122,860	97,156	4,609	2,855	5,377	4,966
Corn	13,781	12,027	9,384	23,232	582	283	339	811
Rice	248,018	238,996	351,860	302,536	11,263	12,610	14,796	18,102
Kola nuts	9,564	8,350	10,707	7,954	820	573	590	611
Sugar	61,619	55,647	53,322	34,186	5,553	3,708	3,351	5,369
Canned fruits and vegetables	9,817	8,403	11,383	5,424	1,771	1,482	2,874	1,091
Fats and oils	15,294	23,123	16,706	36,836	1,822	2,993	2,355	5,150
Beverages	14,145	12,736	12,891	9,076	1,400	1,321	1,739	1,228
Tobacco	2,905	3,090	2,912	2,514	1,709	2,065	1,816	2,115
Petroleum pdts	814,559	921,771	911,273	949,388	23,380	23,881	32,644	58,228
Pharmaceuticals	1,359	2,054	1,712	1,840	2,833	3,280	4,733	5,232
Industrial Chemicals	17,878	11,255	21,297	10,966	4,545	3,641	4,428	3,944
Wood and Wood products	42,037	34,478	41,138	39,902	2,137	1,701	2,225	2,262
Cardboard	29,652	21,965	16,090	19,254	5,984	4,449	5,274	5,109
Cotton Cloth	2,761	2,365	3,889	1,798	3,346	2,501	2,512	2,071
Printed cotton cloth	141	71	131	30	249	190	310	98
Clothing	4,109	2,289	3,460	2,948	2,444	1,624	2,434	2,039
Common Metals	59,917	44,172	42,591	33,241	6,529	4,940	5,081	4,005
Machines (1)	18,978	27,273	30,650	27,884	24,279	24,815	27,110	28,138
Electric Appliances	5,645	5,043	7,788	4,727	8,400	9,684	8,336	9,571
Cars and Buses	7,177	17,594	5,334	4,024	6,220	6,631	7,093	5,945
Trucks	6,781	4,024	2,094	1,508	6,405	3,951	2,239	1,561
Spare parts (auto)	3,568	2,955	3,268	2,053	3,804	3,273	3,561	3,484
Others	289,996	283,468	255,654	189,884	50,170	41,497	49,810	43,495
TOTAL	1,834,698	1,945,684	2,003,110	1,863,939	187,547	170,314	197,979	222,256
Memorandum Item CFAF/$					235.3	209.0	201.0	225.8

Source: GOS Department of Statistics Ministry of the Economy and Finance

(1) Machinery for agriculture and food processing.

TABLE 9

SENEGAL: MAJOR EXPORTS 1977-1980

PRODUCTS	VOLUME (METRIC TONS) 1977	1978	1979	1980	VALUE (MILLIONS OF CFAF) 1977	1978	1979	1980
1. Groundnut pdts.	661,217	219,133	401,195	175,379	75,509	23,539	42,254	17,571
- non grilled groundnuts	81,633	5,459	10,247	2,728	10,411	795	1,970	465
- unprocessed oil	192,334	52,736	120,565	62,580	40,206	13,033	27,046	11,324
- refined oil	34,996	12,807	15,069	11,203	8,295	3,425	3,772	1,585
- groundnut cake	352,254	148,131	255,314	98,868	16,597	6,286	12,466	4,197
2. Non-Groundnut Products	2,519,267	2,353,571	2,389,005	2,285,563	58,150	57,358	61,370	69,055
- fresh vegetables	12,853	7,698	4,466	11,985	1,244	743	722	871
- flour	6,086	21,007	8,390	3	460	1,598	1	(x)
- gum arabic	746	562	2,359	484	195	139	124	126
- fresh fish	37,562	32,843	36,886	49,295	4,614	5,690	6,288	7,157
- seafood	6,849	6,880	6,721	6,531	4,035	5,351	6,079	6,437
- preserved fish	16,816	13,223	11,695	11,557	7,807	6,622	6,352	7,310
- salt	111,219	128,115	111,891	125,440	2,419	3,134	2,576	3,172
- cement	24,195	3,409	5,978	3,548	283	48	120	74
- phosphates	1,861,344	1,739,649	1,817,642	1,483,272	14,971	13,713	15,564	16,465
- refined petroleum products	331,996	324,145	258,255	425,585	12,772	13,639	14,344	18,924
- phosphate fertilizers	90,543	62,941	113,462	160,115	1,294	673	2,834	4,316
- leather and skins	741	958	1,256	1,114	402	514	732	616
- cotton in bulk	12,588	10,505	9,345	5,827	4,876	3,415	2,943	2,168
- cotton textiles	896	626	221	218	1,580	1,400	585	517
- shoes	1,368	453	438	589	1,123	655	658	902
3. Other Products	126,804	126,906	69,477	99,214	19,336	14,386	11,682	14,141
TOTAL	3,303,828	2,698,053	2,859,677	2,560,156	152,920	95,259	113,858	100,767
Memorandum Item CFAF/$					235.3	209.0	201.0	225.8

Source: GOS Department of Statistics Ministry of the Economy and Finance

TABLE 10

SENEGAL: PRINCIPAL TRADING PARTNERS

(1978-1980)

(In Millions of U.S. Dollars)

IMPORTS FROM:

1978			1979			1980		
COUNTRY	IMPORTS	% of TOTAL	COUNTRY	IMPORTS	% of TOTAL	COUNTRY	IMPORTS	% of TOTAL
FRANCE	319.6	39.2	FRANCE	376.8	38.3	FRANCE	331.9	33.7
U.S.A.	63.1	7.8	IRAQ	63.6	6.5	NIGERIA	72.4	7.4
IRAQ	38.0	4.6	THAILAND	55.2	5.6	THAILAND	59.2	6.0
GERMANY	37.8	4.6	U.S.A.	46.5	4.7	IRAQ	57.6	5.9
ITALY	33.0	4.0	ITALY	44.7	4.6	UNITED KINGDOM	52.9	5.4
IVORY COAST	28.9	3.6	GERMANY	43.5	4.4	U.S.A.	42.6	4.3
UNITED KINGDOM	28.5	3.5	NIGERIA	34.6	3.5	GERMANY	33.1	3.4
ALGERIA	27.6	3.4	IVORY COAST	32.2	3.3	ALGERIA	31.6	3.2
PAKISTAN	22.8	2.8	UNITED KINGDOM	32.1	3.3	ITALY	30.6	3.1
NIGERIA	22.6	2.8	ALGERIA	28.8	2.9	IVORY COAST	28.0	2.8
NETHERLANDS	18.9	2.3	SPAIN	23.7	2.4	NETHERLANDS	26.1	2.7
BRAZIL	15.6	1.9	NETHERLANDS	22.3	2.3	CHINA	18.2	1.8
SPAIN	15.2	1.9	LUXEMBURG	20.0	2.0	NORWAY	17.8	1.8
LUXEMBURG	14.3	1.8	PAKISTAN	18.8	1.9	LUXEMBURG	15.0	1.5
UNITED ARAB EMIR.	12.5	1.6	CHINA	18.0	1.8	SPAIN	14.0	1.4
THAILAND	11.3	1.4	BRAZIL	16.9	1.7	PAKISTAN	13.6	1.4
JAPAN	10.9	1.3	CANADA	13.5	1.4	SAUDI ARABIA	11.5	1.2
BURMA	6.8	0.8	JAPAN	12.6	1.3	JAPAN	11.0	1.1
SWITZERLAND	5.9	0.7	UNITED ARAB EMIR.	7.7	0.7	CANADA	7.2	0.7
CANADA	5.1	0.6	SWITZERLAND	7.0	0.7	SWITZERLAND	5.8	0.6
TOP 20 COUNTRIES	738.4	90.6		918.5	93.3		880.2	89.4
ALL COUNTRIES	815.0	100.0		985.0	100.0		984.3	100.0

Source: Foreign Trade Statistics of Senegal (1978-80). Department of Statistics. Ministry of the Economy and Finance.

TABLE 11

SENEGAL: PRINCIPAL TRADING PARTNERS

(1978-1980)

(In Millions of U.S. Dollars)

EXPORTS TO:

	1978			1979			1980	
COUNTRY	EXPORTS	% of TOTAL	COUNTRY	EXPORTS	% of TOTAL	COUNTRY	EXPORTS	% of TOTAL
FRANCE	190.0	41.7	FRANCE	252.2	44.5	FRANCE	142.9	32.0
IVORY COAST	30.7	6.8	UNITED KINGDOM	40.6	7.2	IVORY COAST	33.6	7.5
UNITED KINGDOM	26.2	5.7	ITALY	26.4	4.7	MAURITANIA	26.4	5.9
MALI	25.7	5.6	IVORY COAST	25.2	4.5	MALI	26.2	5.9
MAURITANIA	14.5	3.2	MALI	23.0	4.1	UNITED KINGDOM	25.2	5.7
GREECE	11.5	2.5	MAURITANIA	22.6	4.0	GUINEA-BISSAU	14.6	3.3
NIGERIA	10.0	2.2	GERMANY	12.0	2.1	GERMANY	11.2	2.5
GERMANY	9.8	2.1	GREECE	9.5	1.7	GREECE	10.4	2.3
JAPAN	8.7	1.9	PORTUGAL	8.7	1.5	JAPAN	10.2	2.3
CAMEROON	8.0	1.8	IRELAND	8.5	1.5	ITALY	8.6	2.0
TAIWAN	6.0	1.3	JAPAN	8.3	1.5	PORTUGAL	7.0	1.6
ITALY	5.9	1.3	LUXEMBURG	6.6	1.2	NIGERIA	6.3	1.4
FINLAND	5.8	1.3	CHINA	6.4	1.1	GAMBIA	5.3	1.2
SWITZERLAND	5.3	1.2	NIGERIA	5.7	1.0	NIGER	4.2	0.9
NETHERLANDS	5.2	1.1	NETHERLANDS	4.9	0.9	IRELAND	3.6	0.8
GAMBIA	4.1	0.9	GAMBIA	3.5	0.6	DENMARK	2.8	0.6
BENIN	3.5	0.8	SPAIN	3.3	0.6	SPAIN	2.5	0.6
PORTUGAL	3.4	0.7	POLAND	3.3	0.5	LUXEMBURG	2.2	0.5
CONGO	3.2	0.7	RUMANIA	2.9	0.5	U.S.S.R.	.1	0.5
GABON	3.2	0.7	NIGER	2.7	0.4	GABON	1.9	0.3
TOP 20 COUNTRIES	380.7	83.5		476.3	84.1		347.2	77.8
ALL COUNTRIES	455.8	100.0		566.4	100.0		446.3	100.0

Source: Foreign Trade Statistics of Senegal (1978-80). Department of Statistics. Ministry of the Economy and Finance.

TABLE 12
SENEGAL: TERMS OF TRADE (1975-1981)
(1975 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982 estimated	1983 projected
Export Unit Prices	100.0	88.38	96.15	112.91	121.10	138.49	187.08	176.15	185.87
Import Unit Prices	100.0	101.70	111.75	123.71	143.73	183.97	227.08	252.23	281.69
Terms of Trade	100.0	86.90	86.04	91.27	84.26	75.28	82.38	69.84	65.98
Annual % Change in Terms of Trade	-	-13.1	-0.1	6.1	-7.7	-5.5	14.3	-15.2	-5.5
Memorandum Item:									
All Non-Oil LDC's Terms of Trade	100.0	100.0	112.7	108.1	107.9	103.2	101.5		

Sources: IMF and World Bank estimates for 1982 and 1983.

TABLE 13
SENEGAL: EVOLUTION OF EXTERNAL DEBT
(1971 and 1975-80)

	1971	1975	1976	1977	1978	1979	1980
External Debt Outstanding (1) in Millions of U.S. Dollars	122	297	352	429	614	798	1094.5
Debt Service Payments as % of Exports of Goods and Services	4.9	5.7	6.1	6.5	13.8	14.5	24.2
External Debt Outstanding as % of GDP (1)	14.0	16.4	19.0	21.0	25.9	27.6	38.4 (2)

Source: World Bank, External Debt Tables

(1) Disbursed only - medium and long-term public and publicly guaranteed debt.

(2) The large increase in this ratio from 1979 to 1980 is due in part to the appreciacion of the U.S. dollar against the CFA franc.

TABLE 14
SENEGAL: EXTERNAL PUBLIC DEBT
(1980-1983)
(In millions of U.S. Dollars)

	1980	1981	1982 projected (1)	1983 projected (2)
Outstanding Disbursed (end of period)	1,360.9	1,412.8	1,514.3	1,614.9
Medium and Long-term Debt	1,094.5	1,046.4	1,088.9	1,104.0
Short-term Debt, Central Bank	266.4	366.4	425.4	510.9
Interest Due	63.3	61.0	55.5	107.9
Medium and Long-term Debt	55.4	41.2	34.5	83.3
Short-term, Central Bank (net) (3)	7.9	19.8	21.0	24.6
of which, IMF	(3.5)	(7.7)	(13.3)	(9.5)
Amortization	120.0	100.9	105.1	84.2
Medium and Long-term Debt	111.5	92.2	89.3	73.0
Repurchases from the IMF	8.5	8.7	15.8	11.2
Debt Service as % of Exports of Goods and Services	22.6	25.6	23.1	27.1
External Debt Outstanding as % of GDP	47.7	58.9	61.8	62.3

Sources: GOS Ministry of the Economy and Finance; BCEAO; External Debt System of the World Bank; IMF estimates and projections.

(1) Including effects of 1981 and 1982 debt rescheduling.

(2) Assuming a successful official debt rescheduling (Paris Club) at end of 1983.

(3) Charges on use of IMF resources, interest on borrowing from the Operations Account.

TABLE 15
SENEGAL: MONETARY SURVEY
(1975-1981)
(as a percent of GDP)

	1975	1976	1977	1978	1979	1980	1981	1982
Net Foreign Assets(1)	-4.1	-3.8	-4.2	-8.7	-13.6	-16.3	-17.6	-19.3
Net Domestic Credit	26.8	29.8	33.6	43.1	43.1	45.7	55.0	55.4
- Net Credit to the Government	(0.5)	(3.0)	(3.4)	(3.2)	(3.2)	(4.5)	(7.5)	(11.7)
- Credit to the Private Sector	(26.3)	(26.8)	(30.2)	(39.9)	(39.9)	(41.2)	(47.6)	(43.7)
Other Items (net)	-1.4	-1.3	-2.4	-2.3	-1.8	-1.8	-5.9	-4.2
Domestic Liquidity (2)	21.2	24.7	27.1	32.1	27.7	27.6	31.4	31.8

Source: International Financial Statistics, IMF

(1) This includes foreign long-term liabilities but excludes allocation of SDRs.
(2) Money and quasi-money.

TABLE 16
SENEGAL: GOVERNMENT FINANCIAL OPERATIONS
(Millions of U.S. Dollars)

	1980/81 (1)	1981/82 (1)	1982/83 (1) estimated (2)	1983/84 (1) projected (2)
A. Current Operations				
1. Government Revenues and Grants for Current Expenditures	489.1	497.3	506.3	506.8
2. Current Expenditures of which:	-544.0	-527.8	-523.0	-570.0
- wages and salaries	(-305.1)	(-269.5)	(-261.2)	(-279.5
- interest on public debt	(- 42.9)	(- 54.5)	(- 75.2)	(- 98.6)
- supplies, transfers and other	(-196.0)	(-203.8)	(-186.6)	(-191.9)
3. Other Current Public Expenditure (net) of which:	- 70.5	- 50.3	- 93.6	- 69.7
- Special accounts other than CAA	(- 21.4)	(12.5)	(- 24.7)	(- 15.7)
- CPSP	(- 90.4)	(- 35.9)	(- 68.9)	(- 54.0)
4. Balance of Current Operations	-125.4	- 80.8	-110.3	-132.9
B. Capital Operations				
1. Capital Grants	29.2	18.6	31.6	27.0
2. Capital Expenditure of which:	-215.5	- 86.2	-110.8	-108.1
- budget	(- 83.0)	(- 7.4)	(- 20.1)	(- 27.0)
- extra-budgetary	(-132.5)	(- 78.8)	(- 90.7)	(- 81.1)
3. Total Capital Expenditure (net)	-186.3	- 67.6	- 79.2	- 81.1
C. Overall Deficit on Commitments Basis	-311.7	-148.4	-189.4	-214.0
D. Changes in Payments Arrears (reduction (-))	64.3	- 62.8	- 36.2	- 27.0
E. Overall Deficit on Disbursements Basis	-247.4	-211.2	-225.6	-241.0
F. Current Operations Deficit as % GDP	4.8 %	3.3 %	4.8 %	5.0 %
G. Overall Deficit (disbs. basis) as % GDP	9.5 %	8.7 %	9.8 %	9.2 %
MEMORANDUM ITEM: Exchange Rate (CFAF/$)	256.6	312.1	348.4	370.0

Source: Senegalese Ministry of the Economy and Finance, IMF estimates for 1982/83 and Ministry of the Economy and Finance projections for 1983/84.
(1) This period relates to the Senegalese Fiscal Year which is from July 1st to June 30th.
(2) The figures assume that there will be another successful Paris Club debt rescheduling in late 1983.

TABLE 17

SENEGAL: PERFORMANCE UNDER THE 1981/82 IMF STANDBY AGREEMENT

(In billions of CFAF; end of period)

	SEPT. '81		DEC. '81		MARCH '82		JUNE '82	
	Ceiling	Actual	Ceiling	Actual	Ceiling	Actual	Ceiling	Actual
Total Domestic Credit of the Banking System	348.5	335.3	381.6	379.7	406.6	403.1	415.3	410.2
Net Bank Credit to the Government	47.5	38.7	61.1	51.8	68.8	54.7	86.7	81.1
Govt. Payments Arrears: Minimum Reduction from June 30, 1981	-	-	-	-	4.0	7.9	12.0	16.4
Treasury Net Financing of Correspondents; Minimum Amount Available from June 30, 1981	-	-	-	-	-	-	18.5	18.7
New External Loans Contracted or Guaranteed by the Government:								
1-12 yrs maturity	6.5	0	6.5	4.1	8.9	6.8	9.5	7.6
1-5 yrs maturity	1.0	0	1.0	0	1.6	0.4	1.7	0.4
Memorandum Item:								
CFAF/$	278.4	278.4	287.4	287.4	312.1	312.1	341.5	341.5

Source: IMF

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TABLE 18
SENEGAL: U.S. OVERSEAS LOANS AND GRANTS' OBLIGATIONS AND AUTHORIZATIONS
(U.S. Fiscal Years - $ Millions of Dollars)
Commitments

PROGRAM	1979	1980 (Commitments)	1981	1982	1983 (Requested)	TOTAL
Development Assistance						
1. Sahel Development Program	12,140	10,000	14,800	16,500	18,000	71,440
2. Regional Program						
- River Basin Development (1)						
OMVS	998	2,650	1,314	-	4,900	9,862
OMVG	-	-	-	5,512	800	6,312
- Food Crop Protection (Senegal only)	459	588	481	798	425	2,751
- Other Regional	521	352	1,582	803	1,525	4,783
Sub Total Regional	1,978	3,590	3,377	7,113	7,650	
Economic Support Fund	-	-	-	-	5,000	5,000
Total DA and ESF	14,118	13,590	18,177	23,613	30,650	
PL 480						
Title II (2)	5,487	6,565	9,146	3,670	4,286	29,154
Title III	-	7,000	7,000	7,000	8,000	29,000
Sub Total PL 480	5,487	13,565	16,146	10,670	12,286	
Grand Total DA, ESF, PL 480	19,605	27,155	34,323	34,283	42,936	158,302

(1) Totals represent entire RBDO program.

(2) Excludes ocean transportation and World Food Program but includes emergency food and transport of medicines.

TABLE 19

SENEGAL: AID COMMITMENTS (OFFICIAL DEVELOPMENT ASSISTANCE)
(Millions of U.S. Dollars)
(Calendar Year 1981)

DONOR GROUP	PROJECT AID AND TECHNICAL ASSISTANCE		NON-PROJECT AID		TOTAL INDIVIDUAL DONORS	TOTAL BY DONOR GROUPS
OECD Donors:	Amount	%	Amount	%		
Belgium	5.5	100	0	0	5.5	
Canada	14.4	85	2.5	15	16.9	
EEC	23.6	45	29.4	55	53.0	
France	135.6	90	15.8	10	151.4	
Germany	26.0	90	3.0	10	29.0	
Japan	2.3	58	1.7	42	4.0	
U.S.	17.0	48	18.6	52	35.6	
Other	4.9	82	1.1	18	6.0	
						301.4
Arab Donors:						
Iraq	0	0	2.6	100	2.6	
Islamic Dev. Bank	2.7	100	0	0	2.7	
Kuwait	69.3	100	0	0	69.3	
OPEC Fund	14.0	100	0	0	14.0	
Saudi Arabia	13.9	22	50.0	78	63.9	
						152.5
Multilateral Donors:						
African Dev. Bank	12.9	100	0	0	12.9	
UN Agencies	10.3	100	0	0	10.3	
World Bank	17.1	36	30.0	64	47.1	
						70.3
GRAND TOTAL	369.5	-	154.7	-		524.2

Sources: OECD and Senegalese Ministry of the Economy and Finance.

TABLE 20

SENEGAL: AID COMMITMENTS (OTHER OFFICIAL FLOWS)

(Millions of U.S. Dollars)

(Calendar Year 1981)

DONOR GROUP	PROJECT AID AND TECHNICAL ASSISTANCE		NON-PROJECT AID		TOTAL INDIVIDUAL DONORS	TOTAL BY DONOR GROUPS
	Amount	%	Amount	%		
OECD Donors:						
Canada	0	0	0.7	100	0.7	
EEC	12.9	100	0	0	12.9	
France	18.9	51	18.2	49	37.1	
						50.7
Arab Donors:						
BADEA	10.0	100	0	0	10.0	
						10.0
Multilateral Donors:						
African Dev. Bank	17.4	100	0	0	17.4	
West African Dev. Bank	4.7	100	0	0	4.7	
World Bank	25.8	49	26.8	51	52.6	
						74.7
Other Donors:						
Argentina	0	0	15.0	100	15.0	
						15.0
GRAND TOTAL	89.7	-	60.7	-		150.4

Sources: Senegalese Ministry of the Economy and Finance.

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TABLE 21
SENEGAL: MAJOR AID DONORS(1)
(Calendar Year 1981)

Commitments

DONOR	AMOUNT IN MILLIONS OF U.S. DOLLARS	MAJOR TYPES OF AID AS A % OF EACH DONOR'S TOTAL PROGRAM	
France	188.5	Technical Assistance	38%
		Industrial Development	15%
		Infrastructure	12%
World Bank	99.7	Structural Adjustment	57%
		Industrial Development	28%
		Forestry	9%
Kuwait	69.3	OMVS	100%
EEC	65.9	Stabex	31%
		Industrial Development	23%
		Infrastructure	20%
Saudi Arabia	63.9	Balance of Payments Support	78%
		Infrastructure	22%
United States	35.6	Food Aid	52%
		Agriculture	43%
African Dev. Bank	30.3	Industrial Development	57%
		Infrastructure	43%
Germany	29.0	Technical Assistance	26%
		Infrastructure	22%
		Agriculture	22%
		Industrial Development	17%

Source: OECD and Senegalese Ministry of the Economy and Finance.
(1) Official Development Assistance and Other Official Flows.

TABLE 22
SENEGAL: SELECTED CENTRAL BANK FINANCING
(Millions of U.S. Dollars)
(Calendar Year 1981)

SOURCE	AVAILABILITY	DRAWINGS
IMF	108.8	62.6
Total of which:		
Standby	63.0	16.8
Compensatory Financing Facility	44.9	44.9
Other	0.9	0.9

Sources: BCEAO (West African Central Bank) and IMF.

TABLE 23

DEFINITIONS FOR TABLES ON AID COMMITMENTS

Official Development Assistance is grants or loans:

- undertaken by the official sector;
- with promotion of economic development and welfare as main objectives;
- at concessional financial terms (if a loan, it must have a grant element of at least 25%)

Other Official Flows are official transactions at close to commercial terms (e.g., with a grant element of below 25%). Examples are export credits, bilateral portfolio, and direct investment.

Grant Element reflects the financial terms of a transaction: interest rates, maturity, and grace period. It is a measure of the concessionality (i.e., softness) of a loan. The extent of the benefit depends on the difference between the actual interest rate and the market rate and the length of time the funds are available to the borrower.

Non-Project Aid is comprised of balance of payments/budgetary support, commodity import programs, program loans and grants and food aid. Excluded from this definition is assistance to specifically defined projects or technical cooperation activities.

ANNEX B

GOS Request for Assistance

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The Minister of Plan

Dakar, May 11, 1983 .

The Director
USAID/Senegal
POB 49
Dakar, Senegal

Subject: Balance of Payments Assistance Program.

Dear Mr. Director:

Under the Economic and Financial Reform Plan implemented by the Government of Senegal, the United States Government has decided to grant $18 Million to Senegal for fiscal year 1983 to support its balance of payments.

This grant will cover three programs:

- the first, amounting to $8.0 million, pertains to a one year extension of the current Title III rice import program for which the request was made last month.

- the second, amounting to $5.0 million is designed to finance imports of goods and services from the United States.

The equivalent of this amount in local currency, will be used for the improvement and maintenance of certain rural roads in the Senegal River Basin and the regions of Sine Saloum and Casamance.

The third, also amounting to $5.0 million, will allow the import of urea, and raw materials for blending fertilizer, up to $4.25 million.

The balance of grant, or $0.75 million, will be used to finance the costs related to the comprehensive evaluation of the rural sector, notably rural

.../

savings and credit, in order to assess the highest priority requirements of Senegal's agriculture sector. Of course, this evaluation should take into account previous studies carried out in this area.

Finally, the equivalent of the dollar amount in local currency for the import of the raw materials for blending fertilizer will permit the financing of activities in support of village level cooperatives and producer groups in middle and Upper Casamance and to strengthen the "Caisse Nationale de Credit Agricole du Sénégal".(CNCAS Project), subject to the results of the Credit Study.

Given the importance attached by the Government to Senegal's balance of payments situation, and to the carrying out of the Reform in the rural areas, I would appreciate your assistance and prumpt action do that these programs can be implemented as soon as possible.

Sincerely.

Cheikh H. Kane.

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ANNEX C

COMMODITY IMPORT GRANT AGREEMENT

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685-0262

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COMMODITY IMPORT GRANT AGREEMENT

Grant Number

685-0262

Dated 1983

Between

The Republic of Senegal

and

The United States of America, acting through the Agency for International Development ("AID")

Article 1: The Grant

To finance the foreign exchange costs of certain commodities and commodity-related services ("Eligible Items") necessary to promote economic development and stability, the United States, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Government of the Republic of Senegal under the terms of this Agreement from Economic Support Funds not to exceed Five Million United States Dollars ($5,000,000) (the "Grant").

Article 2: Conditions Precedent to Disbursement

Section 2.1. Conditions Precedent. Prior to the first disbursement under the Grant, or to the issuance of AID of documentation pursuant to which disbursement will be made, the Granteee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(a) An opinion of counsel acceptable to AID that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 7.2, together with a specimen signature of each person certified as to its authenticity.

(c) A procurement plan including the procedures by which all procurement financed under this Grant will be carried out, the criteria and procedures for determining importer eligibility and foreign exchange allocations, and the mechanism for publicizing procurement and making awards.

(d) A written statement that the Grantee has sent a formal letter to the Internatinal Monetary Fund (IMF) setting forth its proposals for a IMF Standby Agreement for Senegal's fiscal year 1983/84, and written confirmation that this proposal is acceptable to the IMF.

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Section 2.2 Conditions Precedent to Disbursement of Local Currency Generated

(a) No funds will be released from the special local currency account to be established in the Central Bank until arrangements for a joint GOS/USAID Counterpart Management Committee have been finalized. (See Section 5.1 (a)).

(b) No funds will be released from the special local currency account (counterpart) until the road maintenance revolving account to be established with the assistance of the World Bank under the Fifth Highway Project is operational, and the agreed upon matching contributions due in the summer and fall of 1983 have been deposited by both the Bank and the GOS;

(c) No funds will be released from the special local currency (counterpart) account until the Public Works Department has prepared an acceptable plan for execution of the Project; with guarantees of equipment and personnel availability, and detailed description of the equipment to be used.

Section 2.3. Notification. When AID has determined that the conditions specified in Section 2.1 have been met, it will promptly notify the Grantee.

Section 2.4. Terminal Date for Conditions Precedent. If not all the conditions specified in Section 2.1 have been met within ninety (90) days from the date of this Agreement, or such later date as AID may specify in writing, AID, at its option, may terminate this Agreement by written notice to Grantee.

Article 3: Direct Reimbursement, Procurement, Eligibility, and Utilization of Commodities

Section 3.1. Direct Reimbursement. Up to $2.5 million dollars of this grant may be used to finance direct reimbursement to the Government of Senegal (GOS) in dollars of the value of goods imported from the United States during the (GOS) fiscal year 1982/83. This reimbursement shall be made upon presentation of appropriate documentation the specific items imported from the U.S. and identifying and certifying the source and origin for eligible commodities as provided for in Regulation 1 and Handbook 15..

Section 3.2. AID Regulation 1. This Grant and the procurement and utilization of commodities and commodity-related services financed under it are subject to the terms and conditions of AID Regulation 1 as from time to time amended and in effect, except as AID may otherwise specify in writing. If any provision of AID Regulation 1 is inconsistent with a provision of this Agreement, the ·eement shall govern.

Section 3.3. Eligible Items.

(a) The commodities eligible for financing under this Grant shall be those specified in the AID Commodity Eligibility Listing as set forth in the Implementation Letters and Commodity Procurement Instructions issued to Grantee. Commodity-related services as defined in AID Reguation 1 are eligible for financing under this Grant. Other items shall become eligible for financing only with the written agreement of AID. AID may decline to finance any specific commodity or commodity-related service when in its judgment such financing would be inconsistent with the purpose of the Grant or of the Foreign Assistance Act of 1961, as amended.

(b) AID reserves the right in exceptional situations to delete commodity categories or items within commodity categories described by Schedule B Codes on the Commodity Eligibility Listing. Such right will be exercised at a point in time no later than commodity prevalidation by AID (Form 11 approval) or, if no commodity prevalidation is required, no later than the date on which an irrevocable letter of credit is confirmed by a U.S. bank in favor of the supplier.

(c) If no prevalidation is required and payment is not by letter of credit, AID will exercise this right no later than the date on which it expends funds made available to the Grantee, under this Agreement for the financing of the commodity.

Section 3.4 Procurement Source. All Eligible Items shall have their source and origin in the "United States" (Code 000 of the AID Geographic Code Book), except as AID may specify in Implementation Letters or as it may otherwise agree in writing.

Section 3.5. Eligibility Date. No commodities or commodity-related services may be financed under this Grant if they were procured pursuant to orders or to contracts firmly placed or entered into prior to the date of this Agreement, except as AID may otherwise agree in writing.

Section 3.6. Procurement for Private Sector. Procurement by private importers will be subject to the negotiated procurement procedures of Section 201.23 of AID Regulation 1, except as AID may otherwise agree in writing or the importer elects procurement through the formal competitive procedures of Section 201.22.

Section 3.7. Utilization of Commodities

(a) Grantee will assure that commodities financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports of entry; such commodities are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessels at the port of entry, unless the importer is hindered by force majeure or AID otherwise agrees in writing; and

(ii) the commodities are consumed or used by the importer not later than one (1) year from the date the commodities are removed from customs, unless a longer period can be justified to the satisfaction of AID by reason of force majeure or special market conditions or other circumstances.

(b) Grantee will assure that commodities financed under this Grant will not be reexported in the same or substantially the same form, unless specifically authorized by AID.

Section 3.8. Shipping

(a) Commodities which are to be transported to the territory of the Grantee may not be financed under this Grant if transported either: (1) on an ocean vessel or aircraft under flag registry of a country which is not included in AID Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which AID, by written notice to the Grantee has designated as ineligible, or (3) under an ocean or air charter which has not received prior AID approval.

(b) Unless otherwise authorized, AID will finance only those transportation costs incurred on aircraft or ocean vessels under flag registry of a country included in the Geographic Code authorized in Section 3.4 of the Agreement.

(c) Unless AID determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by AID which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by AID and transported to the Republic of Senegal on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels.

Section 3.9. Insurance

Marine insurance on commodities financed by AID under this Grant may also be financed under this Grant provided that such insurance is placed in a country included in the Geographic Code authorized in Section 3.3 of this Agreement.

Article 4: Disbursement

Section 4.1. Direct Reimbursement. After satisfaction of the conditions precedent, the Grantee may obtain disbursements under this grant by submitting requests to the USAID for reimbursement (supported by the appropriate documentation). The USAID will then forward them to AID/Washington. After review and approval of the documentation AID/W will cause to be issued a check to the Government of Senegal for the amount approved.

Section 4.2. Letters of Commitment to United States Banks. After satisfaction of the conditions precedent, the Grantee may obtain disbursements of funds under this Grant by submitting Financing Requests to AID for the issuance of letters of commitment for specified amounts

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to one or more banking institutions in the United States designated by Grantee and satisfactory to AID. Such letters will commit AID to reimburse the bank or banks on behalf of the Grantee for payments made by the banks to suppliers or contractors, under letters of credit or otherwise, pursuant to such documentation requirements as AID may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be for the account of Grantee and may be financed by this Grant.

Section 4.3. Other Forms of Disbursement Authorizations. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Section 4.4. Terminal Date for Requests for Disbursement Authorizations. No letter of commitment or other disbursement authorization will be issued in response to a request after eighteen (18) months from the date of this Agreement, except as AID may otherwise agree in writing.

Section 4.5. Terminal Date for Requests for Disbursement. No disbursement of Grant funds shall be made against documentation received by AID or any bank described in Section 4.1 after twenty-four (24) months from the date of signing of this Agreement, except as AID may otherwise agree in writing.

Section 4.6. Date of Disbursement. Disbursements by AID shall be deemed to occur on the date on which AID makes a disbursement to the Grantee, or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or other form of disbursement authorization.

Section 4.7. Documentation Requirements. AID Regulation 1 specifies in detail the documents required to substantiate disbursements under this Agreement by Letter of Commitment or other method of financing. The document number shown on the Letter of Commitment or other disbursing authorization document shall be the number reflected on all disbursement documents submitted to AID. In addition to the above, the Grantee shall maintain records adequate to establish that commodities financed hereunder have been utilized in accordance with Section 3.6 of this Agreement. Additional documents may also be required by AID with respect to specific commodities, as may be set forth in detail in Implementation letters.

Article 5: General Covenants

Section 5.1. Use of Local Currency.

(a) Grantee will establish a Special Account in the Central Bank of Senegal and deposit therein currency of the Government of the Republic of Senegal in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the Direct

Reimbursement procedure or as a result of the import of Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by AID and the Grantee, provided that such portion of the funds in the Special Account as may be designated by AID shall be made available to AID to meet the requirements of the United States.

(b) Deposits to the Special Account shall become due and payable monthly upon advice from AID as to disbursements made under the Agreement.

(c) Any unencumbered balances of funds which remain in the Special Account upon termination of assistance hereunder shall be disbursed for such purposes as may, subject to applicable law, be agreed to between Grantee and AID.

Section 5.2. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the Republic of Senegal. To the extent that any commodity procurement transaction financed hereunder is not exempt from identifiable taxes, tariffs, duties and other levies imposed under laws in effect within the Republic of Senegal, the same shall not be paid with funds provided under this Grant.

Section 5.3. Reports and Records. In addition to the requirements in AID Regulation 1, the Grantee will:

(a) Furnish AID such reports and information relating to the goods and services financed by this Grant and the performance of Grantee's obligations under this agreement as AID may reasonably request;

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to this Grant as may be prescribed in Implementation Letters. Such books and records may be inspected by AID or any of its authorized representatives at all times as AID may reasonably require, and shall be maintained for three years after the date of last disbursement by AID under this Grant; and

(c) Permit AID or any of its authorized representatives at all reasonable times during the three-year period to inspect the commodities financed under this Grant at any point, including the point of use.

Section 5.4. Completeness of Information. The Grantee confirms:

(a) That the facts and circumstances of which it has informed AID, or caused AID to be informed, in the course of reaching agreement with AID on the grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

(b) That it will inform AID in timely fashion of any subsequent facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement.

Section 5.5. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.6. Minimum Size of Transactions. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than Ten Thousand Dollars ($10,000), except as AID may otherwise agree in writing.

Article 6: Special Covenants Concerning Program Implementation and Achievement of Program Objectives

Section 6.1. Efficient Import Procedures. Grantee covenants to undertake measures necessary to assure that its foreign exchange allocation and import licensing systems work efficiently and enable private importers, including small value importers, to participate fully as beneficiaries of this Agreement.

Section 6.2 Road Maintenance Budget. The Government covenants to make all reasonable efforts to regularize the financing of the road maintenance fund so that there are sufficient funds provided annually to maintain Senegal's road network in a satisfactory condition, and that these budgetary provisions, over the next few years, will take priority over the building of new roads be they primary, secondary or feeder.

Section 6.3 Road Maintenance and Improvement. Grantee covenants that it will ensure that proper arrangements are made for execution of any additional design and technical studies which may be needed for this or future programs.

Section 6.4. Periodic Consultations. Grantee and AID agree to meet periodically, but no less than annually, to discuss the progress of implementation of the aforementioned covenants, to discuss the status of the economy, associated economic issues and the relationship of the AID program to those matters.

Article 7: Termination; Remedies

Section 7.1. Termination. This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Section 7.2. Suspension. If at any time:

(a) Grantee shall fail to comply with any provision of this Agreement; or

(b) Any representation or warranty made by or on behalf of Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(c) An event occurs that AID determines to be an extraordinary situation that makes it improbable either that the purposes of the Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

(d) Any disbursement by AID would be in violation of the legislation governing AID; or

(e) A default shall have occurred under any other agreement between Grantee or any of its agencies and the Government of the United States or any of its agencies;

Then, in addition to remedies provided in AID Regulation 1, AID may:

(1) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through irrevocable commitments to third parties or otherwise, or to the extent that AID has not made direct reimbursement to the Grantee thereunder, giving prompt notice to Grantee thereafter;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at AID's expense, direct that title to goods financed under the Grant be vested in AID if the goods are in a deliverable state and have not been offloaded in ports of entry of the Republic of Senegal.

Section 7.3. Cancellation by AID. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section 7.2, the cause or causes thereof have not been corrected, AID may cancel any part of the Grant that is not then disbursed or irrevocably committed to third parties.

Section 7.4. Refunds.

(a) In addition to any refund otherwise required by AID pursuant to AID Regulation 1, if AID determines that any disbursement is not supported by valid documentation in accordance with this Agreement, or is in violation of United States law, or is not made or used in accordance with the terms of this Agreement, AID may require the Grantee to refund the amount of such disbursement in U.S. dollars to AID within sixty (60) days after receipt of request therefor. Refunds paid by the Grantee to AID resulting from violations of the terms of this Agreement shall be considered as a reduction in the amount of AID's obligation under the Agreement and shall be available for reuse under the Agreement if authorized by AID in writing.

(b) The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

Section 7.5. Nonwaiver of Remedies. No delay in exercising or omitting to exercise, any right, power, or remedy accruing to AID under this Agreement will be construed as a waiver of such rights, powers, or remedies.

Article 8: Miscellaneous

Section 8.1. Implementation Letters. From time to time, for the information and guidance of both parties, AID will issue Implementation Letters and Commodity Procurement Instructions describing the procedures applicable to the implementation of the agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters and Commodity Procurement Instructions will not be used to amend or modify the text of this Agreement.

Section 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Minister of Plan and Cooperation and AID will be represented by the individual holding or acting in the office of the Director, USAID/Senegal, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to AID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 8.3. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address.

To the Grantee:	Ministry of Plan and Cooperation Dakar, Senegal
Mail Address:	Ministry of Plan and Cooperation Dakar, Senegal
To AID:	Director, USAID Dakar, Senegal
Mail Address:	USAID c/o American Embassy B.P. 49 Dakar, Senegal

All such communications will be in French unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving of notice. The Grantee, in addition, will provide the USAID Mission with a copy of each communication sent to AID/Washington.

Section 8.4. Information and Marking. The Grantee will give appropriate publicity to the Grant as a program to which the United States has contributed, and mark goods financed by AID, as described in Implementation Letters.

Section 8.5. Language of Agreement. This Agreement is prepared in English and French. In the event of ambiguity or conflict between the two versions, the English version will control.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF SENEGAL	UNITED STATES OF AMERICA
BY: ______________________________	BY: ______________________________
TITLE: ___________________________	TITLE: ___________________________

ANNEX D

SUMMARY OF GOS DECLARATION ON ECONOMIC POLICY (1980)

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ANNEX D

SUMMARY OF GOS DECLARATION ON ECONOMIC POLICY (1980)

A. Introduction

In order to redress the economic situation in Senegal and in recognition of the long-term structural nature of Senegal's economic difficulties, the GOS adopted in the course of 1980 a comprehensive medium-term plan for economic policy reform. The plan calls for the following general measures:

- improved management of public finances, of the parapublic sector and of external debt, to ensure the implementation of an adequate public investment program without compromising Senegal's credit-worthiness;

- the introduction of a restrictive and selective credit policy;

- the introduction of a new foreign trade policy;

- a more systematic reliance on market mechanisms and economic incentives to encourage private investment;

- a reorientation of the national investment program towards the most productive sectors and projects; and

- the introduction of institutional reforms in the rural sector.

B. Public Finances

As a means of moving towards a balanced budget and of restoring a sound financial situation the GOS undertakes (1) to maintain the rate of growth of current government expenditures below that of current revenues and (2) to progressively reduce the share of outlays on personnel.

The GOS will progressively cut back its financial participations and reduce the role of public enterprises in the economy. Public enterprises will operate within the framework of program contracts designed to establish functions, objectives and responsibilities of the GOS and various public enterprises, especially in the financial area.

C. Money and Credit

A restrictive credit policy will be continued through increases in interest rates, where necessary, and the use of a system of advance authorizations for credit requests of or above CFAF 70 million (approx. $245,000).

D. Balance of Payments and External Debt

A priority goal is to reduce the balance of payments deficit to a manageable level in the long-term (e.g. 6-7% of GDP). The key to success lies in limiting imports while expanding and diversifying exports. This is to be accomplished through the progressive introduction of an increase in import duties and a selective export subsidy to encourage sectors that offer real export possibilities (e.g. textiles, knitted goods, fertilizers, agricultural equipment and canned fish products.)

The GOS will make every effort to limit the yearly service on external public debt to 15% of export earnings. Commercial borrowing will be used only for directly productive projects.

E. Prices and Wages

The GOS will continue to implement the policy of "true economic prices". Except for four sensitive food products (rice, bread, sugar and groundnut oil) and producer prices for certain crops, all prices will be subject either to preliminary approval, to monitored reporting, or will be entirely uncontrolled as of the end of 1980. Producer prices for groundnuts and cotton will be fixed each year at the highest possible level compatible with the anticipated export price and intermediate costs to the GOS, though the Price Equalization and Stabilization Fund will attempt to avoid excessive price fluctuations for basic necessities, particularly cereals.

The GOS will keep wage level increases within the limits of the projected growth in GDP and domestic consumption in coming years. Annual wage adjustment will be based on 60% of the rise in the consumer price index since the previous wage increase, plus the growth in real terms of per capita GDP over the same period.

F. Investment Policy

Under the Sixth Plan (1981-85), the GOS will attempt to increase the investment rate through:

- maintenance of fixed investment at an average just below 17% of GDP, and 10% of GDP for public investment;
- allocation of 55% of investment to directly productive sectors; and an
- increase in the contribution of public savings from 15% of public investment at the beginning of the period to 25% by the end of the period.

The economic rate of return on investments must be improved through a judicious choice of projects. Thus an internal economic rate of return will be calculated in accordance with standard rules, which will then be compared to the estimated opportunity cost of capital in Senegal. Planning authorities will be strengthened. Improved monitoring of public sector projects will allow corrective measures to be applied, where necessary.

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G. Actions in the Agriculture Sector

GOS policy in the rural sector has the following priority objectives:

- the development of food crops to decrease import dependency;
- an increase and diversification of agriculture production;
- the encouragement of farmers to accept more responsibility by providing them with extension services and training in cooperative organisation; and
- an increase in the incomes of farm families.

1. Incentive prices in agriculture

The GOS has taken major steps by setting and maintaining remunerative prices for groundnuts and cotton. Levies on groundnut sales are now limited to the amount sufficient to cover fertilizer subsidies. The aim of future pricing will be to adapt producer prices of export products to medium-term world market prices while taking into account the need to maintain a proper balance among the producer prices of various agriculture products.

To achieve the goal of food self-reliancy, the pricing policy for cereals (e.g. millet) is designed to provide an incentive and to keep prices in line with those of export products. The GOS' long-run aim is to stimulate a nationwide cereals market through the removal of physical obstacles to the free circulation of cereals (e.g. lack of feeder roads). GOS intervention in the millet market is to be restricted to stockpiling and minimizing seasonal fluctuations in food supply. The consumer prices of imported food products are determined by import costs.

2. Reorganization of regional and national rural development institutions

Groundnut marketing will be the responsibility of the cooperatives, which will deliver their production directly to the oil crushers. The cooperative movement has become the responsibility of the regional rural development agencies, under the guidance of the Ministry of Rural Development. Although the public sector will retain responsibility for input distribution in the immediate future, this function will be progressively transferred to the suppliers of inputs, the regional societies and the cooperative movement. The village sections should be strengthened, particularly in seed management.

Pending the strengthening of village sections the GOS has created a new agency (SONAR) to supply farmers with inputs. Financial mechanisms are being set up so that SONAR does not have to provide financing for fertilizer subsidies. The GOS has set up a study group to suggest the most efficient structure and management of SONAR and proposals for partial or total recovery of its recurrent charges from beneficiaries.

In view of the dissolution of ONCAD (Office National de Coopération et d'Assistance au Developpement) the GOS has made arrangements to draw up a liquidation statement by the end of the first half of 1981, to make arrangements for settling ONCAD's liabilities vis-a-vis its suppliers and the banks, and to report on former ONCAD personnel who have been retired by public or parapublic enterprises.

The regional rural development institutions will become the principal agents providing assistance to the cooperatives and promoting rural development. This will require the setting up of flexible manangement systems capable of working closely with village communities. A new internal structure for SAED, based on autonomy of the irrigated perimeters and participation by the farmers in their management, is being developed.

In the context of strengthening regional and national rural development institutions, program contracts will be agreed between the agencies and the GOS. The program contracts will set forth action programs allowing each agency the autonomy for staff recruitment and management but requiring cuts in personnel in line with needs and financial resources. The restructuring of the rural sector should be accompanied by a general review of the organization and personnel needs of the sector as a whole.

3. Reorganization of the Price Equalization and Stabilization Fund

The GOS has abolished subsidies for consumer goods through CPSP and intends to increase the price of these goods in line with cost increases. A study of the financial management will be made and will examine ways of assisting farmers adversely affected by the drought without resorting to debt cancellation, which would undermine the basic principles of agriculture credit. The GOS will adopt the principle that the CPSP should, under normal conditions, finance the subsidies it pays out from the financial surpluses on imported and exported commodities that pass through this organization. If there is an exceptional shortfall of funds the Treasury would supply the CPSP, for a limited period, with sufficient funds to continue its operations.

4. Reorganization of distribution of seeds and other agriculture inputs

The quality of seed stocks has seriously deteriorated and the management of the seed credit program has suffered from the same accounting irregularities as agriculture credit accounts. SODEVA is to undertake trials aimed at expanding village seed storage capacity and disseminating knowledge of established methods of seed protection. Management of seed stocks is to be progressively transferred to village sections. The GOS will establish mechanisms to link the regional rural development agencies with the ordering and distribution of inputs. Direct delivery of inputs by manufacturers to small farmers will be introduced.

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5. Overhaul of agriculture credit

An audit of cooperative accounts in the peanut basin is to be carried out and presented to the GOS. Terms of credit will be tailored to the size of the farm and the categories of equipment ordered. Loan recovery will be reinforced by restoring the link between marketing and production. The terms of reference for a study on reorganization of agriculture credit have been approved.

6. Overhaul of groundnut collection and weighing operations

The marketing of groundnuts by ONCAD in the past has led to considerable losses. The GOS has decided to make the cooperatives responsible for quantity and quality control at their level, and oil crushers responsible for losses occurring after the delivery of the product to marketing depots.

7. Encouragement of private enterprise in marketing

The State monopoly of millet distribution has been abolished; the rice monopoly has been transferred to CPSP, which will operate through private traders; and marketing of maize and sorghum will remain in the private sector.

8. Creation of village sections within cooperatives

In order to provide a sounder basis for a system of joint and multiple liabilities with respect to credit and to ensure farmer participation the GOS and the regional rural development agencies will encourage the formation of village sections within the cooperatives. Village sections will be made more effective through a functional literacy program for their representatives.

9. Reorganization of agriculture research

The GOS will continue a policy of improvement in agriculture research, but with a new emphasis on the constraints faced by small farmers through an interdisciplinary research program. The research will be organized by natural region; (a) the fleuve region for irrigation and mixed crop and livestock farming; (b) the pasture area for extensive stockraising; (c) the groundnut basin for intensive rainfed agriculture and the existing association of crop cultivation with livestock; and (d) Casamance for intensive stockraising and farming systems based on paddy rice.

ANNEX E

SUMMARY OF MAJOR REQUIREMENTS UNDER THE IMF STANDBY AGREEMENT AND THE WORLD BANK STRUCTURAL ADJUSTMENT LOAN

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ANNEX E

SUMMARY OF MAJOR REQUIREMENTS UNDER THE IMF STANDBY AGREEMENT AND THE WORLD BANK STRUCTURAL ADJUSTMENT LOAN

A. Introduction

Since the introduction of the World Bank Structural Adjustment Loan (SAL) in late 1980 the World Bank and the IMF have been working together closely to ensure that the major requirements under these two agreements are compatible and, where possible, mutually reinforcing. The IMF standby arrangement which must be renegotiated annually has since 1981 incorporated the major outstanding requirements under the SAL. In the division of labor between these two institutions, the IMF has concentrated on the macroeconomic aspects of economic stabilization while the World Bank has assumed responsibility for monitoring agriculture and institutional reforms.

B. General Objectives

The pace of adjustment as defined in the GOS Declaration of Economic Policy in 1980 has proved to be overly ambitious in terms of the responsiveness of the Senegalese economy. Thus the objectives for stabilization have been revised downward. The GOS under the current program (approved by the IMF Executive Board in November 1982) is striving for:

- a reduction in the external current account deficit from 15% of GDP in 1982 to 12.4% in 1983; and

- a reduction in the public finance deficit from 9.4% of GDP in 1981/82 to 7% in 1982/83.

C. Public Finances

1. Requirements in the area of public finances focus on: (1) increasing government revenue; (2) reducing current expenditures; and (3) limiting credit expansion especially as regards the banking system's net claims on the Government. As a means of increasing government revenue the GOS has agreed to:

    a. increase fiscal duty on imports by 5% and improve tax collection which should increase at the same pace as GDP;

    b. increase taxes on alcoholic beverages by 30%; and

    c. increase the tax on Kola nuts from CFAF 95/Kg to CFAF 150/Kg.

2. In order to contain public expenditures the GOS has undertaken to:

    a. control recruitment so that the wage bill increases by less than 7% in 1982/83;

    b. study measures of reducing the rate of growth of public sector employment to 1% in 1983/84;

c. increase the ex-refinery prices for petroleum products by at least 14%; and

d. reduce the deficit of the Price Equalization and Stabilization Fund from CFAF 20 billion in 1981/82 to CFAF 10 billion in 1982/83.

3. Total domestic credit is to expand by no more than 14% over the year from July 1st 1982 to June 30th 1983 with growth in net government claims on the banking system limited to about 20%. Over the same period the GOS is expected to reduce its arrears by CFAF 12.6 billion (approximately $35 million).

D. External Sector

Measures required to prevent further deterioration in the balance of payments include (1) containment of growth in imports (2) an increase in the subsidy rate for nontraditional exports and (3) limits on new external public borrowing. One of the objectives behind the commitment to increase the fiscal duty on imports by a further 5% is to restrict the increase in imports to about 11% in CFAF terms. The subsidy rate on certain exports is to be increased to 15% of the f.o.b. value of exports. The subsidy is to be extended to market-garden produce, food and mechanical products and other areas where Senegal has excess production capacity.

New government and government-guaranteed external borrowing with maturities of 1-12 years is to be limited to SDR 20 million (approximately $22 million) over the period from July 1st 1982 to June 30th 1983. New borrowings with maturities of 1 to 5 years are to be limited to SDR 2 million (approximately $2.2 million) over the same period. As a means of providing short-term relief for the GOS with respect to debt service payments, a rescheduling of external public debt with maturities falling due in 1982/83 and nonguaranteed bank debt for maturities falling due in 1981/82 and 1982/83 is to be sought under the auspices of the Paris Club.

E. Actions in the Agriculture Sector

The major thrust of actions to be taken in the agriculture sector involves ways of improving the efficiency and reducing intermediate costs in the groundnut sector. A team of experts is to be set up to improve the accounting system of the Price Equalization and Stabilization Fund[1] (a major institution in the agriculture sector) and the financial control of the transactions between the Fund and other pertinent organizations.

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1 Caisse de Péréquation et de Stabilisation des Prix (CPSP)

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1. Groundnut sector: price compensation and marketing

Since the producer price for groundnuts is fixed while the export price is variable, the financial equilibrium of the sector may have to be assured through a system of levies (paid by oil crushing firms to the CPSP in the event of an export price that is above the producer price plus intermediate costs) or of subsidies (paid by the CPSP to the oil crushing firms in the event of an export price that is below the producer price plus intermediate costs). The amount of subsidy or levy is to be determined at the beginning of the marketing season and adjusted at the end of it in accordance with movements in export prices.

In the case of groundnut oil and mixed oils sold on the domestic market there might also be a need for a similar system of levies or subsidies if the domestic selling prices fixed by the government are above or below production costs. In regulating prices, the GOS is to try to avoid granting subsidies for domestic oil consumption, save for exceptional cases.

Before each crop season opens in mid-November, a contract is to be concluded between the oil producers and the CPSP to determine the amount of subsidies or levies. For exported products the levy or subsidy is to be expressed in CFAF/Kg of unshelled groundnuts and is subject to adjustment in the following September. For domestically consumed oil the levy or subsidy is to be expressed in CFAF/liter ex-factory.

The oil crushing firms are to assume responsibility for the primary marketing, processing, and export of groundnut products beginning at the start of the 1982/83 crop year. Attention is to be given to the possible savings that could be made by simplifying the marketing system through the rationalization of the collecting system, the reduction of overhead expenditures and the elimination of intermediaries.

2. Groundnut sector: seed distribution

The GOS is to announce a new seed distribution policy prior to October 1, 1982. This new policy is designed to make it possible for farmers to choose between holding back their own seeds or obtaining them from a national stockpile. In the first case, farmers are to receive a bonus of CFAF 50 per kilogram of seeds held back, calculated on a pro rata basis to the amount of groundnuts they have marketed. In the second case, farmers are to receive seeds from a national stockpile, also on a pro rata basis to the amount they have marketed. The seed stockpile is to amount to 120,000 metric tons for the coming crop year, of which at least 20,000 tons are to be seeds held back by the farmers themselves. The national stockpile is to be gradually reduced over future crop seasons and should not exceed 40,000 metric tons by 1986/87. At the same time, studies on the reorganization of the production and distribution of groundnut seeds are to be pursued with a view of avoiding the need for any subsidy in a normal year.

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3. Fertilizer

Beginning November 1, 1982 fertilizers are to be sold for cash at a price averaging CFAF 50 per kilogram, but which can vary depending on the type of fertilizer. The Government will authorize the Société Industrielle des Engrais du Sénégal (SIES) (privately owned fertilizer mixing plant), within the framework of a program contact system, to make its own arrangements for fertilizer marketing. In addition, the Government undertakes gradually to reduce the amount of subsidies granted for fertilizers. It will study the possibility of reducing the amount of the annual subsidy by 25 per cent over the coming crop year.

4. SONAR

SONAR's (Societé Nationale d'Approvissonnement Rural) operating budget is to be taken over by the Central Government in 1982/83 under Treasury operations. Its accounts are to be audited by the Central Accountant for the Public Agencies, ("Agent Comptable Central des Etablissements Publics"), and its expenditure commitments are to be authorized by the Controller for Financial Operations ("Contrôleur des Opérations Financières"). Since SONAR will be relieved of its responsibilities as regards the distribution of fertilizers, its staff is to be reduced. In fiscal year 1982/83 no permanent staff is to be recruited and the number of temporaries is to be reduced to 5,000 man/months, representing a decrease of about 40 per cent compared with the previous year.

5. Sugar

The prices for milk sugar are to be raised 50 per cent effective November 1, 1982. In addition, the Government is to re-examine its agreement with the Senegalese Sugar Company (Compagnie Sucrière Sénégalaise), before December 15, 1982, and is to adjust prices as necessary to eliminate any subsidy in 1982/83.

ANNEX F

PROCEDURES AND CRITERIA FOR USE OF THE LOCAL CURRENCY

ANNEX F

PROCEDURES AND CRITERIA FOR USE OF THE LOCAL CURRENCY

A. Introduction

This following procedures assume that the Special Account at the Central Bank has been established, and that local currency (l/c) generated by the dollar disbursed for the $4.25 million in fertilizer imports has been deposited in the account, or is in the process of being deposited.

It also assumes that the government has met the condition precedent section, which requires the GOS to name or establish a Joint Local Currency (or counterpart) Management Committee ("Comité de Gestion").

B. Local Currency Management

The GOS has agreed to use a l/c Management Committee to approve releases for specific activities from the above mentioned local currency (or counterpart) account. The Ministry of Plan has suggested that the existing l/c Management Committee already established by the GOS for the PL 480 Title III Program be used. This committee, which is composed of representatives from the Ministries of Plan, Finance, Commerce, and USAID, was organized in its present "streamlined" form one year ago, and is working well.

USAID favors this proposal. With some modest broadening of the Title III Committee Mandate, and with some minor changes in operating procedures, it could be made to handle releases from all l/c funds generated from nonproject assistance (ESF, SDF, PL 480, etc.).

The Committee will be able to invite representatives of the Central Bank and/or Technical Ministries to assist at committee meetings (as needed) when project financing proposals from the Technical Ministries are received for approval.

A prerequisite for presentation of any proposal to the l/c Management Committee for consideration will be that the proposed activity have the prior approval of the Technical Ministry and the USAID Technical Division concerned.

C. Local Currency Project Approval Criteria[1]

The following criteria will be applied by the Committee to determine whether or not an activity is eligible for obligation of funds:

1. Mandatory criteria for all activities

   - The manner in which the activity will be carried out shall be described.

1 Copies of the criteria will be made available to the GOS technical ministry to assist them in preparing proposals for submission to the Joint Management Committee.

- The approximate date project will begin and end must be described.
- The site of the activity must be identified or criteria for selecting site set forth.
- Nature of goods and service to be provided must be identified.
- Cost of goods and services identified sufficiently to enable reasonably firm cost estimate.
- Where applicable, engineering or other technical planning necessary to carry out particular activity will be identified.

2. Economic criteria that should be taken into account:

   - That projected costs and returns result in benefits sufficient for the target population to become involved in the activity.
   - That the technologies being introduced and tested are appropriate for the local economic systems.
   - Where applicable, that the agricultural support system is adequate, including availability of inputs, extension assistance and a marketing system for both inputs and outputs.
   - That the costs are reasonable in relation to the expected number of beneficiaries.
   - That recurrent costs and maintenance of the activity can be provided by the village or GOS.
   - That an adequate administrative/organizational structure exists through which to implement the activity, including adequate staff, operating funds, and management procedures.
   - That marketing opportunities are available for production activities undertaken.
   - That for any livestock related assistance, village efforts and commitment to destocking be considered.

3. Environmental criteria

Since the counterpart belongs to the host government, there is no legal requirement for an environmental assessment for the l/c projects which will be proposed under this grant. However the USAID believes that the Committee should consider this important aspect along with the other points listed above; therefore the USAID proposes to send the Committee a set of AID's environmental guidelines including the special brochure on environmental considerations relating to Rural Roads (part of ESF project).

D. Opening of the Project or Activity Account

Once a project has been approved by the Committee, the Central Bank will be asked to open a specific account for the project. Each approval will contain specific instructions as to withdrawal procedures.

E. Reporting Requirements

It is proposed to use the reporting procedures already in place for the Title III l/c Management Committee. These procedures provide for quarterly financial and progress reports.

F. Evaluation Plans

The Joint Semi-Annual Evaluations of the progress will be held by the Committee at a time to be determined by the committee. In addition to the semi-annual program evaluation, each project will be individually evaluated upon its completion to determine how well it achieved its purpose.

G. Audit

Normal GOS audit procedures will apply, with the Joint Management Committee free to request special audits where the "circumstances" so warrant.

H. Conclusion

Given the satisfactory experience with the existing Title III l/c Management Committee, since it was streamlined last year, no major difficulties are envisioned in broading its mandate and installing the above procedures.

ANNEX G

RURAL ROAD MAINTENANCE AND IMPROVEMENT PROGRAM
ECONOMIC EVALUATION

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April 1983

ANNEX G

RURAL FEEDER ROADS MAINTENANCE AND IMPROVEMENT PROGRAM

SUMMARY

A. Introduction

The first USAID Rural Feeder Roads Maintenance Activity for Senegal will finance essential periodic and annual maintenance of 728.5 kms of rural feeder roads constructed and improved throughout Senegal since 1976 (of which 686.5 kms was constructed by the World Bank Feeder Roads Program), the improvement of 353.5 kms of rural feeder roads integrally linked to the success of major development projects in the Lower Casamance, Fleuve and Senegal Oriental region, and support the conducting of other feeder roads maintenance activities by financing local purchase of essential spare parts. The project will be executed over a two year period.

The activity is economically, technically and organizationally sound. The economic rates of return for the road improvements are between 12.53 and 31.77 percent; those for the annual and periodic maintenance components of the activity of are similar magnitude.

The activity will permit the full realization of development projects in many areas of Senegal, and will directly benefit the rural populations as well as the country as a whole. Realization of the activity will allow major increases in agriculture production (in terms of both hectarage and yield), directly increasing rural incomes and reducing the need for food imports. Road improvement and maintenance will greatly reduce vehicle operating costs.

The improved and properly maintained roads will end the isolation of many villages, many of which are completely inaccessible during the rainy season. The maintenance and improvements will permit the passage of agriculture inputs and facilitate the use of improved agriculture techniques, and will allow additional produce to be marketed.

This feeder roads maintenance activity will directly provide a number of important social benefits: improved communication, access to supplies and services, including medical services, and in some regions, significant redistribution of income.

The activity will also delay the need for and eventual cost of large investments for infrastructure renewal.

B. Feeder Roads in Senegal

A feeder roads agency, the Bureau de Pistes de Production (BPP), was set up and equipped in 1976 under the World Bank Feeder Roads Project. After some start-up difficulties, the BPP constructed and improved 686.5 kms of roads. Since the end of World Bank financing in 1981, the BPP (now the Division des Pistes et des Rechargements - DPR) has been hindered by scarcity of operating funds and lack of equipment in good condition. Virtually no feeder roads maintenance has taken place in Senegal in recent years.

Because of the lack of annual and periodic maintenance, the feeder roads constructed and improved by the World Bank have deteriorated seriously, and benefits expected from the roads have not been fully realized. A program is urgently needed to perform the maintenance necessary to bring these roads back to satisfactory condition, and to continue the required annual maintenance.

In 1980, the World Bank (in a report by BCEOM) identified several hundred additional kilometers of feeder roads to be improved. The various regional development agencies have since proposed other feeder road improvement projects. In general, improvements of these roads is vital to the full realization of a number of development projects in Senegal.

USAID proposes to remedy the serious shortfall in the maintenance of rural feeder roads by financing a Rural Feeder Roads Maintenance Activity. This activity is designed to reinforce the emphasis of the World Bank on road maintenance and improvement as opposed to new road construction. Thus, the USAID activity will concentrate on maintenance and improvement of existing rural feeder roads and reinforcement of Senegal's rural feeder roads maintenance capability. Looking to possible additional activities after this project is completed, some 35 million CFAF ($100,000 in local currency) has been earmarked for a Feeder Roads Study. While adequate technical studies and documentation has been available for the 1082 kilometers of roads proposed for maintenance and upgrading, in this PAAD, additional feeder (rural) roads will require economic and technical studies.

C. Work Included in the Activity

The activity will include the improvement of 353.5 kms of feeder roads in the Matam and Bakel areas of the Senegal River Valley and in the Lower Casamance. These are priority areas of agriculture development in which USAID is already participating (through the OMVS, Bakel IDP, Pidac, and Lower Casamance Integrated Development Projects).

These roads are currently unmaintained and in an unimproved condition. They are generally impassable during the rainy season. Improvement will involve widening the existing roads to a 7-meter base course and charging with a 15-centimeter layer of laterite, 5 meters in width. As most of the roads are now below the current ground level, a 10-centimeter backfill of clayey material and lateral ditches on both sides of the road for drainage purposes are foreseen.

To prevent further road degradation and to perpetuate the usefulness of the roads, the activity will also include a program of annual maintenance and periodic maintenance for the roads completed during the World Bank Feeder Roads Project.

D. Study Methodology

The current conditions of the roads, and the work required for each road improvement were determined primarily by on-site visits. The state of deterioration was estimated for the roads constructed during the first World Bank Feeder Roads Project. Unit costs were based on current costs in Senegal. Annex 1 presents the estimated costs of maintenance for the 728.5 kms of roads already constructed and improved by the BPP/DPR.

The economic analysis of the road improvements is based on the difference between projections of growth in agriculture production in the zones of influence of the roads with and without the roads improvement. The methodology is based on and closely follows that of the 1980 World Bank report by BCEOM. Production projects (hectarage, yield) are based on information obtained from the regional development agencies and the World Bank BCEOM projections. Where estimates of yields or hectarage varied, the lower estimate was generally adopted. Development projects in the zones of influence of the roads which are of uncertain timing or financing, and socioeconomic benefits difficult to quantify, were excluded from this analysis. Because of this conservative approach, the calculated economic rates of return are probably understated.

E. Economic Analysis

Four groups of roads to be improved were evaluated and included in the project (see Annex 2)

- Lower Casamance - Pidac area: 124 kms
- Lower Casamance - Pidac area/Zone 9: 78.5 kms
- Senegal River Valley - Matam area: 108 kms
- Senegal River Valley - Bakel area: 43 kms

The economic rates of return are favorable to excellent, varying between 12.57 and 31.77 percent in the normal situation. A sensitivity analysis was performed; only in the worst case situation (increase in investment cost of 10%; decrease in agricultural benefits of 10%) are two of the rates of return below 10 percent. The summary of this economic analysis is presented in Annexes 3 and 4.

The World Bank has found that road maintenance is among the activities yielding the highest rates of return, frequently yielding returns greater that 100 percent for highways.[1]

REGION		LENGTH-KILOMETERS
Sine Saloum		231
Thies-Louga		193.5
Casamance		229
River Basin		76
Senegal Oriental (27)		
Fleuve (48)		
	TOTAL	728.5

1 International Roads Federation. World Highways (Newsletter) Vol. XXIII. Washington, D.C., October 1982.

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Benefits resulting from appropriate annual and periodic road maintenance include:

- reduced vehicle operating costs
- reduction of losses and spoilage of produce and other transported goods
- continuation of agriculture production benefits due to the feeder roads
- prolongation of road life and postponement of the need for infrastructure renewal
- reduction of eventual renewal and periodic maintenance costs.

Over a 3 year period (longer in the drier, northern, area) without road maintenance, vehicle operating costs will rise by 30 to 50 percent. Thereafter, deterioration of the road continues at an increasing rate; after 5 to 6 years, the road will require major renewal and will be impassable during the rainy season, a situation not unlike, in terms of effects, that of the original unimproved, summary road.

Annual maintenance costs average only 1 to 2 percent of original improvement costs (less if complete construction was involved). Periodic maintenance costs (once every three to five years) ave ige 8 to 11 percent of improvement costs. Even if only 10 to 20 percent of the production benefits due to the roads are lost in year 3 due to lack of maintenance, and 60 to 75 percent after year 5 to 7, it is easily seen that the maintenance of rural feeder roads offers an excellent rate of return. On economic grounds, therefore, the proposed program of annual and periodic maintenance of the roads constructed and improved by the BPP/DPR is fully justified.

F. Recurrent Costs

The recurrent costs resulting from this project are mainly those annual and periodic maintenance costs necessary to keep the roads in good condition.

The average cost of annual maintenance of the feeder roads is about 46,600 CFAF - $133 per km. The average cost of periodic maintenance, incurred every three to five years, depending on the region, is about 280,200 CFAF - $800 per km.

The table below presents the recurrent costs for the ten years following the project. For the first year, only annual maintenance will be required. In the second year, periodic maintenance will be required on about 10 percent of the feeder road network; the remainder will receive normal annual maintenance. In the years following, 25% to 30% of the network will receive periodic maintenance each year.

The World Bank Project foresees a Road Fund whose purpose is to finance annual and periodic maintenance and operating costs of the Roads Maintenance Directorate of about 4 billion CFAF (about $11,5 Millions) per year during the project, 3 billion CFAF per year afterwards. Approximately 10 percent of these funds are earmarked for rural roads maintenance.[1] The rural roads to be maintained are almost exclusively those 1082 kilometers of rural feeder roads with which the project is concerned. Thus, sufficient funds will be available to finance the recurrent costs necessary to keep the roads in conditions, and to enable full realization of the project benefits.

It is recommended that the Government of Senegal be required to provide an acceptable budgetary plan to ensure the availability of the funds to cover recurrent costs.

YEAR FOLLOWING PROJECT	RECURRENT COSTS (CFAF)	FUNDS AVAILABLE FROM ROAD FUND (CFAF)
1	50 000 000	400 000 000
2	75 000 000	400 000 000
3	125 000 000	300 000 000
4	125 000 000	300 000 000
5	125 000 000	300 000 000
6	125 000 000	300 000 000
7	125 000 000	300 000 000
8	125 000 000	300 000 000
9	125 000 000	300 000 000
10	125 000 000	300 000 000

G. Use of Foreign Exchange

Few foreign exchange costs will result from this activity. The equipment to be used in the activity will not be purchased specifically for the activity, but will be equipment purchased through other programs and used for this activity. Fuel costs will be incurred but will be purchased on the local market.

H. Executing Agency

Beginning in 1977, the World Bank and the Government of Senegal adopted a policy of decentralizing roads maintenance activities, confiding these activities to regional maintenance organizations, restricting the central organization to controlling, planning, budgeting and auditing functions.

The creation of the BPP/DPR, a centralized feeder roads construction and maintenance unit, was an exception to this policy.

Three possibilities are considered for the execution of this activity:

1. The project may be confided to the DPR. The DPR has a well-trained and currently underutilized staff of 245. The DPR equipment is old and in poor repair. If the DPR were re-equipped, the DPR could complete 60 to 70

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1 The World Bank; Staff Appraisal Report, Fifth Highway Project, Feb. 1983.

percent of the activity work in the proposed two years. As purchase of equipment, other than locally available space parts, is not included in this activity, the equipment would have to come from elsewhere. The World Bank's Fifth Highway Project, and a loan from the KFW (Germany) are two possibilities. Use of the DPR is the Public Works Department's preferred alternatives.

2. The activity may be confided to the regional organization of the Public Works Department, to be included in their annual program. The regions are well-equipped. This alternative could, however, cause organizational problems, especially if the DPR personnel were to be transferred to the regions. The utility of causing organizational complications for a project of short duration is questionable. Care would have to be taken to ensure that the feeder roads receive adequate priority in the regional programs.

3. Project work may also be confided to private contractors. In both of the above alternatives private contractors should have an important participation, with responsibility for the transport of earth and materials, and the construction of various structures. This type of private contracting, already commonly used, directly encourages the small local contractor/entrepreneur. Private contracting of transport and structures would mount to approximately 20% to 25% of total project maintenance and improvement costs.

Entire sections of road could also conceivably be contracted to private enterprise. Experts are divided on whether private contracting is a more expensive alternative. Private contracting may well be used in conjunction with the other alternatives, to supplement the work of the DPR or regiona organizations.

To ensure adequate organizational arrangement, the Public Works Department should be required before disbursement of funds to submit an acceptable plan for the execution of the activity, including use of some private contracting, and including assurances that the necessary equipment will be made available.

I. Other Issues

This activity touches only a small part of the feeder road system in Senegal. It is evident that there is no lack of possible additional feeder roads improvement and maintenance projects. It is therefore hoped that this first activity will be the basis for a continuing intervention by USAID in feeder roads maintenance and improvement.

In line with the Fifth Highway Project of the World Bank, it is desirable that the Government of Senegal furnish a defined level of financial participation in the feeder roads activity. If the USAID feeder road program is to continue, a Government of Senegal participation should be defined as a percentage of activity funding, increasing over time to perhaps match USAID participation.

Some 35 million CFAF ($100,000 in local currency) has been earmarked for a Feeder Roads Study. While adequate technical studies and documentation has been available for the 1082 kilometers of roads proposed for maintenance and upgrading, in this PAAD, additional feeder (rural) roads will require additional economic and technical studies.

J. Program and Recommendations

The feeder road improvements and maintenance activities evaluated in this report promise good to excellent economic returns. It is therefore strongly recommended that USAID Feeder Road Maintenance Activity be undertaken.

Activity disbursement are estimated as follows:

	IN CFAF	In US $
Maintenance of 728.5 kms of Feeder Roads	234 115 750 CFAF	$ 668 902.14
Improvement and Maintenance of 335.5 kms of Feeder Roads	1 092 154 400 CFAF	$ 3 120 441.15
15% Inflation and Inforeseen	198 940 523 CFAF	$ 568 401.49
	1 525 210 673 CFAF	$ 4 357 744.78
Feeder Roads Study	35 000 000 CFAF	100 000.00
Spare parts	189 789 3[illegible]7 CFAF	542 255.22
	1 750 000 000 CFAF	$ 5 000 000.00

In light of the above, the following are also recommended:

- Require of the Public Works Department an acceptable plan for execution of the Activity, with guarantees of equipment availability and detailed description of the equipment to be used.

- For a continuing USAID participation in Senegal's feeder roads maintenance program, establish with the GOS a program of GOS financial participation. Agreement reached with the World Bank for the Fifth Highway Project may serve as an example.

- Ensure that proper arrangements are made for execution of the design and technical studies.

- Require an acceptable budgetary plan to ensure the availability of funds to recover expected recurrent costs.

- Consider eventual extension of the USAID feeder roads maintenance program in Senegal and select and evaluate feeder roads maintenance projects.

ANNEX 1

ROADS TO BE MAINTAINED - WORLD BANK PROJECT
(in CFAF)

PISTE	LENGTH	DATE OF OF COMPLE TION	COST OF ANNUAL MAINTENANCE	COST OF PERIODIC MAINTENANCE	FIRST YEAR OF COST MAINTENANCE
SINE SALOUM					
Kaffrine-Delbi	30	Feb. 81	1 380 000	7 770 000	9 150 000
Kaffrine-Mbeuleus	18	Feb. 81	828 000	4 662 000	5 490 000
Koungheul-Maka Gouye	26.5	May 81	1 219 000	6 863 500	7 473 000
Diago-Diakhao	8	1976	368 000	2 072 000	3 844 000
Ngodiba-Pathé Thiangaye	52.5	Dec. 80	2 415 000	13 597 500	22 811 250
Guinguinéo-Gnibi	38	Early 79	1 748 000	9 842 000	13 338 000
Ndoffane-Tiaré	20	Oct. 79	920 000	5 180 000	6 560 000
Passy-Dieding	13	Nov. 80	598 000	3 367 000	3 965 000
Toucar-CF N1	15	Jul. 80	690 000	3 885 000	4 575 000
N5-Missirah	10	unknown	460 000	2 950 000	3 575 000
TOTAL Sine Saloum	231				
THIES-LOUGA					
Mbacké-Balla	23	Dec. 80	1 058 000	5 957 000	7 015 000
Ndindi-Touba Bogo	11	Dec. 80	506 000	2 849 000	3 355 000
Kael-Touba Mboul	18	Jan. 80	828 000	4 662 000	5 490 000
Mbacké-Médina Touré	7	Jan. 82	322 000	1 813 000	483 000
Bambey-Wakhaldiame	15	Jan. 82	690 000	3 885 000	1 035 000
Bambey-Diawane	19	Oct. 80	874 000	4 921 000	5 795 000
Diourbel-Tiobé	16	Jul. 80	736 000	4 144 000	4 880 000
Diourvel-Diakhao	22	Nov. 80	1 012 000	5 698 000	6 710 000
Khombole-Ndiayenne Sirack	7.5	Jul. 79	345 000	1 942 500	2 460 000
Notto-Tasset-Nguekokh	35	Jul. 82	1 610 000	9 065 000	2 415 000
Louga-Mbedienne[1]	14	1982	644 000	3 626 000	644 000
Ndande Area[2]	6	1983	276 000	1 554 000	276 000
TOTAL Thies-Louga	193.5				
CASAMANCE					
Les Caloumayes	38	Jan. 81	1 748 000	11 590 000	13 338 000
Guerina-Diandialath	20	Apr. 80	920 000	6 100 000	7 480 000
Marsassoum-Bantagnina	26	Jan. 81	1 196 000	7 930 000	9 126 000
Sandiniere-Sara Tening	52	Nov. 80	2 392 000	15 860 000	18 252 000
Kanoya-Diaroumé	40	May 81	1 840 000	12 200 000	13 120 000
Biarou-Lenkéring	39	June 81	1 794 000	11 895 000	12 792 000
Wassadou-Pakour	2	Jul. 81	92 000	610 000	656 000
Poutou-Tare Mboumbaye[2]	12	1983	552 000	3 660 000	552 000
TOTAL Casamance	229				

SENEGAL ORIENTAL					
Koupentoum-Koutia Ba	27	May 80	1 242 000	6 993 000	8 235 000
TOTAL Senegal Oriental	27				
FLEUVE					
Richard-Toll-Mbane	27	Mar. 81	1 242 000	6 993 000	8 235 000
Gae-CFN2	10	Dec. 80	460 000	2 590 000	3 050 000
Tassinière-Tare	2	June 81	92 000	518 000	564 000
Pelour-CFN2	9	Feb. 82	414 000	2 331 000	6 000
TOTAL Fleuve	48				
GRAND TOTAL	728.5				

1 Self-help effort.

2. Feeder road completed after the first World Bank Feeder Roads project.

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ANNEX 2.a

LOWER CASAMANCE ROADS

PIDAC AREA (1)

ROAD	LENGTH (km)	ZONE OF INFLUENCE (km^2)
Rn20-Youtou	9	85
Oussouye-Kagnout-Elinkine	18	120
Brin-Enampore-Seleky	12	120
Dialang-Kaguit	7	80
Tendieme-Soutou-Suel	14	100
Giakounda-Kandiabou-Toukara	39	380
Bourofaye-Toubacouta-Badem-Kassoulo	15	75
Cap Skirring-Djembering	10	80
	124	1040

(1) Zone 9 Roads not included.

ANNEX 2.b.

LOWER CASAMANCE ROADS - ZONE 9 ROADS

ROAD	LENGTH (km)	ZONE OF INFLUENCE (km^2)
Boutoute-Guidel	9.2	50.6
Niaguis-Guidel	7.6	41.8
Agnak-Kamarakounda	9.2	50.6
Diagnon-Bissine	7.1	39.1
Guidel-Kamarakounda	11.2	61.6
Kamarakounda-Bissine	15.8	86.9
Bissine-Kaour	5.6	30.8
Sindon-Lati	12.8	70.4
	78.5	431.8

ANNEX 2.c.

MATAM REGION ROADS

ROAD	LENGTH	VILLAGE PERIMETERS IN ZONES OF INFLUENCE (HA)	NET SURFACE ARE CONSIDERED IRRIGABLE IN ZONES OF INFLUENCE
Tianiato-Dembakane	6	67	2000
Kanel-Odobéré	11	118	8000
Bodidiave-Nguidjilone	53	358	
Bac de Kaedi			1000 to 15000
Agnam Goli-Dial	30	171	
Gassemberi-Waounde	8	136	2500
	108	850	22500 - 27500

ANNEX 2.d.

BAKEL REGION ROADS

ROADS	LENGTH (kms)
RN2-Balou-Aroundou-Sebou	14
RN2-Yafera	14
RN2-Koungani	7
Moudieri-Gande	8
	43

ANNEX 3.0

COSTS AND BENEFITS

The Tables that follow, Annexes 3.1 through 3.4 present the various economic costs and benefits which determine the economic evaluation (rate of return and present value) of the roads improvements components of this project. The various types of costs and benefits are:

1. Investment

The original cost of the road improvements on the group of road.

2. Maintenance

The cost of annual or pediodic maintenance of the group of roads. These maintenance costs are those required to keep the roads in satisfactory condition. The cost and frequency of periodic maintenance varies by region.

3 Additional Inputs

For each group of roads, the amount (in hectarage and tonnage) of additional agriculture production attributable to the roads improvement was calculated. This additional production will require corresponding additional agriculture inputs. This item, therefore represents the costs of additional inputs (primarily fertilizer which will be used to achieve the additional production expected from the roads improvement.)

4. Additional Production

The additional agriculture production that is expected to result from the roads improvement was estimated in terms of tonnage. This item represents the value of this additional production.

5. Traffic Benefits

This item presents the savings of vehicle operating costs of existing light vehicle traffic due to the roads improvement.

6. Net Benefits

The net economic benefit by year for each group of roads. The Net Benefit is equal to : value of additional production
+ traffic benefits
- cost of additional inputs
- maintenance costs
- investment costs.

ANNEX 3.1.a.

COSTS AND BENEFITS LOWER CASAMANCE ROADS

PIDAC AREA (CFAF X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	383.42	-	-	-	-	(383.42)
1		5.70	7.05	45.93	9.25	42.43
2		5.70	8.11	52.95	9.25	48.39
3		37.88	9.32	60.87	9.25	22.92
4		5.70	10.72	70.76	9.25	63.59
5		5.70	12.34	82.02	9.25	72.23
6		37.88	14.17	94.96	9.25	52.16
7		5.70	16.30	110.06	9.25	97.31
8		5.70	18.76	136.50	9.25	121.29
9		37.88	21.59	167.50	9.25	117.28
10		5.70	24.81	203.80	9.25	182.04

ANNEX 3.1.b.

COSTS AND BENEFITS LOWER CASAMANCE ROADS

PIDAC AREA ($ 1 X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	1.10		-	-	-	(1.10)
1		0.02	0.02	0.13	0.03	0.12
2		0.02	0.02	0.15	0.03	0.14
3		0.11	0.03	0.17	0.03	0.07
4		0.02	0.03	0.20	0.03	0.18
5		0.02	0.04	0.23	0.03	0.21
6		0.11	0.04	0.27	0.03	0.15
7		0.02	0.05	0.31	0.03	0.28
8		0.02	0.05	0.39	0.03	0.35
9		0.11	0.06	0.48	0.03	0.34
10		0.02	0.07	0.58	0.03	0.52

1 Errors due to rounding

ANNEX 3.2.a

LOWER CASAMANCE ROADS
ZONE 9 ROADS
COSTS AND BENEFITS

(CFAF X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	237.94	-	-	-	-	(237.94)
1		3.60	2.93	19.05	5.86	18.38
2		3.60	3.36	22.01	5.86	20.91
3		23.88	3.87	28.73	5.86	7.04
4		3.60	4.46	39.68	5.86	37.48
5		3.60	5.12	54.82	5.86	51.96
6		23.88	5.89	70.66	5.86	46.15
7		3.60	6.77	87.47	5.86	82.96
8		3.60	7.79	10.07	5.86	103.54
9		23.88	8.96	13.28	5.86	104.30
10		3.60	10.31	15.32	5.86	144.27

ANNEX 3.2.b.

LOWER CASAMANCE ROADS
ZONE 9 ROADS
COSTS AND BENEFITS

($1 X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS (1)	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	0.67	-	-	-	-	(0.67)
1		0.01	0.01	0.05	0.02	0.05
2		0.01	0.01	0.06	0.02	0.06
3		0.07	0.01	0.08	0.02	0.02
4		0.01	0.01	0.11	0.02	0.11
5		0.01	0.01	0.16	0.02	0.15
6		0.07	0.02	0.20	0.02	0.13
7		0.01	0.02	0.25	0.02	0.24
8		0.01	0.02	0.31	0.02	0.30
9		0.07	0.03	0.38	0.02	0.30
10		0.01	0.03	0.44	0.02	0.41

1 Errors due to rounding

ANNEX 3.3.a.

MATAM REGION ROADS
COSTS AND BENEFITS

(CFAF X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	326.99		-	-	-	(326.99)
1		4.97	-	-	8.06	3.09
2		4.97	-	-	8.06	3.09
3		4.97	6.90	77.13	8.06	73.32
4		4.97	13.80	154.26	8.06	143.55
5		27.97	20.70	231.39	8.06	190.78
6		4.97	27.60	308.52	8.06	284.01
7		4.97	34.50	385.65	8.06	354.24
8		4.97	34.50	385.65	8.06	354.24
9		4.97	34.50	385.65	8.06	354.24
10		27.97	34.50	385.65	8.06	331.24

ANNEX 3.3.b.

MATAM REGION ROADS
COSTS AND BENEFITS

($1 X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	0.93	-	-	-	-	0.93
1		0.01	-	-	0.02	0.01
2		0.01	-	-	0.02	0.01
3		0.01	0.02	0.22	0.02	0.21
4		0.01	0.04	0.44	0.02	0.41
5		0.08	0.06	0.66	0.02	0.55
6		0.01	0.08	0.88	0.02	0.81
7		0.01	0.10	1.10	0.02	1.01
8		0.01	0.10	1.10	0.02	1.01
9		0.01	0.10	1.10	0.02	1.01
10		0.08	0.10	1.10	0.02	0.95

1 Errors due to rounding

ANNEX 3.4.a.

BAKEL REGION ROADS
COSTS AND BENEFITS

(CFAF X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	135.68		-	-		(135.68)
1		1.98	-	-	3.21	1.23
2		1.98	-	-	3.21	1.23
3		1.98	1.04	11.57	3.21	11.76
4		1.98	2.07	23.14	3.21	22.30
5		11.18	3.11	34.71	3.21	23.67
6		1.98	4.14	46.28	3.21	43.37
7		1.98	5.18	57.85	3.21	53.90
8		1.98	5.18	57.85	3.21	53.90
9		1.98	5.18	57.85	3.21	53.90
10		11.14,	5.18	57.85	3.21	44.75

ANNEX 3.4.b.

BAKEL REGION ROADS
COSTS AND BENEFITS

($1 X 10^6)

YEAR	INVESTMENT	MAINTENANCE	ADDITIONAL INPUTS	ADDITIONAL PRODUCTION	TRAFFIC BENEFITS	NET[1] BENEFITS
0	0.39	-	-	-	-	(0.39)
1		0.01	-	-	0.01	-
2		0.01	-	-	0.01	-
3		0.01	0.01	0.03	0.01	0.03
4		0.01	0.01	0.07	0.01	0.06
5		0.03	0.01	0.10	0.01	0.07
6		0.01	0.01	0.13	0.01	0.12
7		0.01	0.01	0.17	0.01	0.15
8		0.01	0.01	0.17	0.01	0.15
9		0.01	0.01	0.17	0.01	0.15
10		0.03	0.01	0.17	0.01	0.13

1 Errors due to rounding

ANNEX 4.a.

SUMMARY OF ECONOMIC ANALYSIS/SENSITIVITY ANALYSIS[1] (in CFAF)

ROADS	ECONOMIC RATE OF RETURN: NORMAL	INVEST-MENT - 10%	BENE-FITS - 10%	INVESTMENT + 10% BENEFITS 10%	PRESENT VALUE OF BENEFITS (CFAF X 10^6): AT 10%	AT 12%	AT 15%
Lower Casamance (Zone 9 excl.)	12.57	10.80	10.09	8.41	440.76	395.24	338.56
Lower Casamance (Zone 9)	14.72	13.06	12.55	10.95	314.26	278.49	234.24
Fleuve-Matam Region	31.77	29.74	29.32	27.36	1062.25	938.49	784.49
Fleuve-Bakel Region	12.53	10.96	10.59	9.06	158.34	140.07	117.31

1 This table presents, in summary form, in CFAF, the results of the economic analysis of the roads improvements. Economic Rates of Return have been calculated for the normal situation, and for three less advantageous situations (investment cost 10% greater; agriculture benefit 10% less; investment costs 10% greater and agriculture benefits 10% less (worst case)). The present value of the benefit stream (all costs and benefits, excluding the initial investment) have been calculated at 10, 12 and 15% (worst case)) rates of interest. These may readily be compared to the corresponding investment costs.

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ANNEX 4.b.

SUMMARY OF ECONOMIC ANALYSIS/SENSITIVITY ANALYSIS[1]
(in $)

	ECONOMIC RATE OF RETURN				PRESENT VALUE OF BENEFITS		
ROADS	NORMAL	INVEST-MENT + 10%	BENE-FITS - 10%	INVESTMENT + 10% BENEFITS - 10%	($ X 10^6) AT 10%	AT 12%	AT 15%
Lower Casamance (Zone 9 excl.)	12.57	10.80	10.09	8.41	1.26	1.13	0.97
Lower Casamance (Zone 9)	14.72	13.06	12.55	10.95	0.90	0.80	0.67
Fleuve-Matam Region	31.77	29.74	29.32	27.36	3.04	2.68	2.24
Fleuve-Bakel Region	12.53	10.96	10.59	9.06	0.45	0.40	0.34

1 This table presents, in summary form, in dollars, the results of the economic analysis of the roads improvements. Economic Rates of Return have been calculated for the normal situation, and for three less advantageous situations (investment cost 10% greater; agriculture benefit 10% less; investment costs 10% greater and agriculture benefits 10% less (worst case)). The present value of the benefit stream (all costs and benefits, excluding the initial investment) have been calculated at 10, 12 and 15% (worst case)) rates of interest. These may readily be compared to the corresponding investment costs.

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ORGANIZATIONS VISITED AND BIBLIOGRAPHY

ORGANIZATIONS VISITED

Louis Berger International, Inc.

Harza Engineering Company International

Organisation pour la Mise en Valeur du Fleuve Senegal (OMVS/FAO)

Projet Intérimaire de Développement Agricole en Casamance (PIDAC)

La Société d'Aménagement et d'Exploitation des Terres du Delta, du Fleuve Senegal et des Vallées du Fleuve Sénégal et de la Falémé (SAED)

La Société pour la Mise en Valeur Agricole de la Casamance (SOMIVAC)

La Direction Générale des Travaux Publiques

- -La Direction Générale (DGTP)
- -La Direction de l'Entretien Routier et du Matériel (DERM)
- -La Direction des Etudes et de la Programmation (DEP)
- -Services Régionaux: Casamance, Fleuve, Bakel Subdivision Départementale
- -La Divsion des Pistes et des Rechargements (DPR)

United States Agency for International Development (USAID)

United Nations Sahelian Organisation (UNSO)

The World Bank

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ANNEX H

DETERMINATION OF CATEGORICAL EXCLUSION

DETERMINATION OF CATEGORICAL EXCLUSION

Project Country:	Senegal
Project Title:	ESF (CIF) Standard Financing/Direct Reimbursement
Funding:	5.0 Million Dollars
Period of Funding:	FY 1983-1984
Prepared by::	Joy W. Lucke, USAID/Senegal
Reviewed by:	Peter Freeman, USAID/Senegal
Environmental Action Recommended:	Categorical Exclusion Under Regulation 216.2 (c) (2) (IX)
Concurrence:	David Shear David Shear, Director, USAID/Senegal
Date:	May 16, 1983

Bureau Environmental Officer's Decision:

Approved:____________________

Disapproved:____________________

Date:____________________

Clearance: RLA ________

Section 216.2 of AID Regulation 16 provides that certain classes of action do not require an Initial Environmental Examination. Among these classes is the following:

AID does not have knowledge of or control over, and the objective of AID in furnishing assistance does not require either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID.

Section 216.2(c) (2) provides that the originator of a program determines in writing the extent to which a class of categorical exclusions applies to such program. This written determination is to be concurred in by the Bureau Environmental Officer.

This Annex constitutes the written determination by the Mission Director, USAID/Senegal, that the above quoted categorical exclusion applies to this project and an Initial Environmental Examination need not be made.

Examination of Nature, Scope and Magnitude of Environmental Impacts

I. Description of the Project

The project proposes to provide a commodity import grant of $5.0 million to the Government of Senegal (GOS) from Economic Support Funds on standard AID terms. The primary purpose of the grant is to provide balance of payments assistance by financing commodities to be selected from the list of eligible commodities (Handbook 15, app. B). AID has no knowledge of the specific goods to be imported, nor will it control the nature of the commodities to be imported, other than ensuring that no pesticides will be imported under the proposed project and the USAID will inform GOS of any potentially hazardous materials or uses once these become known.

The local currencies generated from this CIP will be used to finance the maintenance and upgrading of existing rural roads.

II. Recommended Environment Action

In accordance with AID Regulation 16, Section 216.2(c) 2 (ix), assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures if "prior to approval, AID does not have knowledge of the specific commodities to be financed, and when the objective in furnishing such assistance requires neither knowledge at the time assistance is authorized, nor control during implementation, of the commodities or their use in the host country."

So as to ensure that the GOS is advised on AID environmental concerns, the Joint GOS/USAID Project Committee will be given a list of AID environmental and road construction guidelines.

As the subject assistance fulfills the qualifications cited above, it should be granted a categorical exclusion and be exempt from any further environmental procedures.

ANNEX I

STATUTORY CHECKLIST

I - COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No.

2. FAA Sec. 620(b). If assistance is to a governement, has the Secretary of State determined that it is not controlled by the international Communist movement?

   Yes.

3. FAA Sec. 620(c). If assistance is to a governement, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

   No.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to obligations toward such citizens or entities?

   No.

A.	5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?	No. No.
	6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or agression?	No.
	7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	No.
	8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	No.
	9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters.	Senegal has taken no such action.
	a. has any deduction required by Fishermen's Protective Act been made?	
	b. has complete denial of assistance been considered by AID Administrator?	
	10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act. unless debt was earlier disputed, or appropriate steps taken to cure default?	No. No.

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A. 11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

8% of the GOS budget for 1982-33 is for military expenditures. Most new military equipment has been a gift from other donors. No sophisticated weapons systems have been purchased.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

Current.

14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No.

15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

There are no U.S. military facilities in Senegal.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin any employee of the U.S. there to carry out economic development program under FAA?

No.

A. 17. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? — No.

18. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? — No. No.

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? — No.

B. FUNDING CRITERIA FOR COUNTRY

1. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? — No.

2. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? — Yes.

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

4. FY79 App. Act Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — No.

II- NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)

(a) Describe how committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Proposed CIP/Grant was included in the FY 1983 Congressional Presentation. Normal Congressional Notification procedures will be followed.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

Yes.

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

No further legislation is required.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No. Program will not encourage regional development programs. Senegal is not a newly independent country.

A. 4. FAA Sec. 601(a);(and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	This is grant. Program will increase the flow of international trade by providing the necessary foreign exchange for importation of goods. This program assistance is earmarked for the Senegalese private sector and will tend to foster private initiative and competition through the proposed sub-projects.
5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The commodities financed by the program will contribute to a revitalization of the Senegalese economy. This, plus the requirement that U.S. manufactured commodities be procured with grant proceeds and the resulting increased familiarity with U.S. products should lead to further trade with the U.S.
6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	Program provides foreign exchange assistance for commodity imports. The local currency generated is to be programmed into sub-projects.
7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	At present Senegal is not a country in which the U.S. owns excess foreign currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The program will provide commodities necessary to the increased production of food and agricultural exports and thus contribute to the revitalization of the Senegalese economy, a key factor in future economic and political stability. Senegal is one of the countries eligible for assistance from Economic Support Funds.

III - STANDARD ITEM CHECKLIST

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes, AID Regulation 1 procedures will apply.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes.
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes, AID Regulation 1 procedures will apply.
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	Yes.
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	Yes.
A. 6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	There will be no offshore procurement of agricultural commodities.

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7. <u>FAA Sec. 604(f)</u>. Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	Yes, using AID Regulation I procedures.
8. <u>FAA Sec. 608(a)</u>. Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	No, not under the terms of private sector CIP.
9. <u>FAA Sec. 603</u>. (a) Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at lease 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Transportation waiver is found in Annex J.
10. <u>FAA Sec. 621</u>. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes. Facilities of other Federal Agencies will not be utilized.
10. <u>International Air Transport. Fair Competitive Practices Act, 1974</u> If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	Yes.

11. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?	Yes.

B. Construction — No construction will be financed by this Grant.

C. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?	Yes.
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?	Yes.
3. Will arrangement preclude use of financing:	
a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?	Yes. Yes.
b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes.
d. FAA Sec. 662. for CIA activities?	Yes.
e. App. Sec. 103. to pay pensions, etc., for military personnel?	Yes.

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f.. App. Sec. 106. to pay U.N. assessments? Yes

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.

h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? Yes.

i. FY 79 App. Act Sec. 601. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes

ANNEX J

OCEAN FREIGHT WAIVER REQUEST

ANNEX J

OCEAN FREIGHT WAIVER REQUEST

A. Waiver Required

Procurement of source and origin waiver from AID Geographic Code 000 (United States) to Code 899 (Free World) for procurement of marine transportation services from the United States to Senegal.

B. Summary Waiver Information

Cooperating Country:	Senegal
Authorizing Document:	PAAD
Activity:	Commodity Import Program
Nature of Funding:	Economic Support Fund
Approximate Total Value:	$1,000,000
Proposed Source/Origin:	AID Geographic Code 899 (Free World)

C. Discussion

USAID/Senegal has planned to utilize an Economic Support Fund grant in the amount of $5 million for a private sector Commodity Import Program. This activity is to assist the GOS in its balance of payments deficit and to generate local currency for agricultural development sub-projects in line with the GOS's Reform Plan to become more self-reliant in food production.

One of the objectives of this grant is to help expand U.S. imports to Senegal. Import tariffs on U.S. products were recently reduced to the same level as those placed on imports from the European Economic Community, thus reducing the advantage of EEC commodities in the Senegalese market. Recently, ocean transportation service from the U.S. has been infrequent and often indirect. Farrell Lines has been calling at the Port of Dakar on a monthly basis, sailing directly from an East Coast port (Baltimore or New York) in approximately 12 days. Lately, Farrell Lines has determined that they have not had enough cargo booked to justify a stop in Dakar, and cargo has been off-loaded in Abidjan, Ivory Coast, and transshipped to Dakar. This process has increased shipping time by 45 days or more. This unreliable service will not be looked at favorably by potential importers, who can count on European shipments with a transit period of from 7 to 10 days.

Delta Lines, the only other U.S. flag vessel with regular service to Dakar, schedules monthly stops, coming from the Gulf States area, frequently with intermediate stops. However, the majority of the cargo destined for Dakar is shipped from East Coast ports which are not serviced by Delta Lines.

Other vessels regularly serving Dakar from the U.S. East Coast are Nawal and Barber Lines, both code 899 flag vessels. Service is available every two weeks.

D. Justification

More frequent, dependable transportation services are essential to the success of this AID-financed grant, and non-AID foreign exchange is not available for these costs. Per Handbook 1B, Chapter 7, paragraph 7B 4a(2) a waiver for transportations services is justified when eligible vessels can provide liner service only by transshipment, and vessels under flag registry of countries to be authorized by the waiver provide liner service without transshipment. In addition, per paragraph 7B 4(a)3, non-availability of eligible vessels would delay shipment and significantly delay receipt of the cargo.

E. Certification

The interests of the United States are best served by permitting financing of transportation services on ocean vessels under flag registry of free world countries other than the United States.

ANNEX K

121D Certification and Determination

VZCZCDRB *
RR RUEHC
DE RUTADS #9797 136 **
ZNR UUUUU ZZH
R 161117Z MAY 83
FM AMEMBASSY DAKAR
TO SECSTATE WASHDC 0862
BT
UNCLAS DAKAR 09797

CLASS: UNCLASSIFIED
CHRGE: AID 5/11/83
APPRV: DIR:DSHEAR
DRFTD: PCO:DFRANKLIN:OC
CLEAR: 1.PDO:JSCHLESINGE
2.PRM:SREA
DISTR: AID AMB DCM

AIDAC

INFO ROSEMARIE DEPP

E.O. 12356:N/A
SUBJECT: ESF (CIP) PROGRAM (685-0262) 121 D CERTIFICATION

1. USAID DIRECTOR HEREBY CERTIFIES SUBJECT PROJECT AS FOLLOWS:

I CERTIFY THAT LOCAL COST FINANCING ON THE ESF (CIP) PROGRAM (STANDARD FINANCING AND DIRECT REIMBURSEMENT) NO. 685-0262 WILL NOT BE RELEASED DIRECTLY TO THE COOPERATING COUNTRY.

ALL SUCH DISBURSEMENTS WILL BE MADE DIRECTLY BY USAID/ SENEGAL SHOULD ANY BECOME NECESSARY.

2. PLEASE PROVIDE NECESSARY 121 D DETERMINATION.
DEJARNETTE
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#9797

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UNITED STATES GOVERNMENT

memorandum

DATE: May 16, 1983

REPLY TO ATTN OF: David Shear, Director
USAID/Senegal

SUBJECT: ESF (CIP) Program (685-0262) 121 D Certification

TO: F.S. Ruddy, Assistant Administrator
Bureau of Africa

I certify that local cost financing on the ESF (CIP) Program (Standard Financing and Direct Reimbursement) N°. 685-0262 will not be released directly to the cooperating country.

All such disbursements will be made directly by USAID/Senegal should any become necessary.

Approve:____________

Disapprove:_________

ANNEX L

PAIP Approval Telegram

UNCLASSIFIED

685-262

VV TAA484ESC910
PP RUTADS
DE RUEHC #0289/01 0420743
ZNR UUUUU ZZH
P R 110526Z FEB 83
FM SECSTATE WASHDC
TO RUTADS/AMEMBASSY DAKAR PRIORITY C...
INFO RUEHAB/AMEMBASSY ABIDJAN 2281
BT
UNCLAS SECTION 01 OF 02 STATE 040289

11 FEB 83
TOR: 0954
CN: 05845
ACTION: AID
INFO: AMB
CUR

ADM. AID.

E.O. 12356: N/A
TAGS:
SUBJECT: SENEGAL - ESF (685-2262)

REF: DAKAR 10907

1. SUMMARY ECPR REVIEW OF SUBJECT PAIP HELD FEBRUARY.

2. 1983, AND WAS CHAIRED BY DAA/AFR FOR COASTAL AND WEST AFRICA. PAIP APPROVED; MISSION MAY PREPARE PAAD WITH FOLLOWING CAVEATS:

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--A. LIFE OF ACTIVITY FUNDING SHOULD BE ONLY DOLS 5.0 MILLION AVAILABLE THIS FISCAL YEAR.

--B. USES OF FOREIGN EXCHANGE FOR COMMODITY IMPORT, PROBABLY FERTILIZER, APPROVED; HOWEVER, PAAD SHOULD JUSTIFY IMPORTATION OF FERTILIZER, AS OPPOSED TO OTHER COMMODITIES, BY PREPARING NECESSARY TECHNICAL AND ECONOMIC ANALYSES. IF ANALYSES DO NOT SUPPORT PRELIMINARY PLAN TO IMPORT SINGLE COMMODITY, I.E., FERTILIZER, MISSION MAY PROPOSE USING AID COMMODITY ELIGIBILITY LIST (SEE HB 15, APPENDIX E).

--C. USE OF LOCAL CURRENCY GENERATIONS FOR

ESTABLISHMENT OF GRAIN RESERVE NOT APPROVED. MISSION SHOULD IDENTIFY OTHER USES OF LOCAL CURRENCY WHICH WOULD SUPPORT BROADER NEGOTIATIONS REGARDING POLICY OBJECTIVES, THROUGH USE IN CURRENTLY APPROVED MISSION SUPPORTED ACTIVITIES OR RURAL ACCESS ROADS, CURRENTLY PROPOSED FOR SUPPORT UNDER AGRICULTURE DECENTRALIZATION AND CREDIT (685-0249). ACTIVITIES IN LAND MANAGEMENT AND REGENERATION MAY BE CONSIDERED IN RELATION TO RECOMMENDATIONS RESULTING FROM ENVIRONMENTAL REVIEW.

3. PAAD TO BE SUBMITTED TO AID/W FOR REVIEW. EXPECT DOCUMENT TO BE REVIEWED PRIOR FINAL PREPARATION OF AGRICULTURE DECENTRALIZATION AND CREDIT (685-0249). THIS WILL BE HELPFUL IN REVIEWING AGRICULTURE DECENTRALIZATION AND CREDIT IN CONTEXT OF OVERALL PROGRAM OBJECTIVES.

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RAISED AND SUGGESTIONS MADE TO BE CONSIDERED IN PREPARATION OF PAAD.

--A. MISSION SHOULD RELATE ESF PROPOSAL TO ENTIRE REFORM PACKAGE TO BE SUBJECT OF NEGOTIATION WITH THE GOVERNMENT OF SENEGAL (GOS). NEGOTIATIONS SHOULD NOT BE COMPARTMENTALIZED BY ASSISTANCE INSTRUMENT. THUS, MISSION SHOULD CONTINUE TO PRESS FOR REDUCTION AND EVENTUAL ELIMINATION OF FERTILIZER SUBSIDY WHILE FULLY REALIZING THAT OBJECTIVES OF ORIGINALLY PROPOSED ESF PACKAGE WILL NOT BE ATTAINABLE IN THE ONE-YEAR LIFE OF THE APPROVED GRANT PROPOSAL. AS PART OF THIS EFFORT, PAAD SHOULD INDICATE REFORMS AND LEVEL OF ACHIEVEMENT TO BE ATTRIBUTED TO REDUCED ESF ONE YEAR DOLS 5.2 MILLION PROGRAM. PAAD POLICY OBJECTIVES (1) OF INCREASING FERTILIZER COSTS PAID BY USERS FROM 15 PERCENT TO 75 PERCENT AND (2) TRANSFERRAL OF FERTILIZER DISTRIBUTION SYSTEM TO PRIVATE FIRMS AND ELIMINATING THE GOVERNMENT DISTRIBUTOR THAT SHOULD BE CONSIDERED WITHIN THE WIDER CONTEXT AND ARE POLICY OBJECTIVES THAT SHOULD BE PURSUED ACCORDINGLY. THE LINKAGE TO THE OVERALL IMF/WORLD BANK SPONSORED REFORM PLAN ARE TO BE CONSIDERED AND DISCUSSED.

--B. IN CONSIDERING USE OF FOREIGN EXCHANGE FOR FERTILIZER IMPORTS, PAAD ANALYSIS SHOULD DETERMINE BOTH THE ECONOMIC AND FINANCIAL RATE OF RETURN FROM INCREASED FERTILIZER APPLICATIONS. FOR EXAMPLE, WHAT ARE AVERAGE YIELD INCREASES RESULTING FROM FERTILIZER APPLICATION?

WHAT IS THE COST-BENEFIT RELATIONSHIP OF FERTILIZER AND INCREASED YIELDS? HOW DOES THIS AFFECT FARMERS MOTIVATION TO PURCHASE FERTILIZER AT INCREASED COSTS? SECONDLY, THE PAAD SHOULD INCLUDE AN INSTITUTIONAL ANALYSIS OF THE FERTILIZER MARKET AND FERTILIZER MIXING PLANT. SPECIFICALLY, THE CHARACTERISTICS OF THE PRIVATE SECTOR IN THE FERTILIZER MANUFACTURE AND DISTRIBUTION SYSTEM SHOULD BE CLARIFIED AS THE ~~PRIVATE SECTOR~~ IS A CRITICAL ASPECT OF THE POLICY ISSUES RAISED. CAUSES OF THE UNDERUTILIZATION OF THE PLANT SHOULD BE IDENTIFIED. E.G. IS THE PROBLEM LACK OF IMPORTED MATERIALS OR IS THERE A LACK OF EFFECTIVE DEMAND? IS THE FACTORY VIABLE ONLY IF PROTECTED BY IMPORT LICENSING OR TARIFFS? IS IN-COUNTRY MIXING OF FERTILIZERS ECONOMICALLY VIABLE? IS IT AN OPERATION WHICH SHOULD BE SUPPORTED? WILL THE FERTILIZER COMPANY BE WILLING TO SHIFT ITS SOURCES OF SUPPLY? WHAT IS THE COST DIFFERENTIAL BETWEEN U.S. SOURCES OF SUPPLY AND CURRENT SOURCES?

--C. FINAL SELECTION OF USE OF FOREIGN EXCHANGE SHOULD USE, AMONG ANY OTHERS MISSION IDENTIFIES, CRITERIA OF

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PROVIDING EXPEDITIOUS BALANCE OF PAYMENTS RELIEF.

--D. HOW WILL THE HIGHER U.S. SHIPPING COSTS AFFECT PRICE OF FERTILIZER AND HOW DOES THIS RELATE TO CURRENT SUBSIDY AND OBJECTIVE OF REDUCING SUBSIDY THROUGH ASSISTANCE?

--E. MISSION SHOULD CONSIDER PROGRAMMING OF LOCAL CURRENCY GENERATIONS FOR ONE OR TWO DISCRETE ACTIVITIES WHERE BENEFITS CAN BE EASILY IDENTIFIED, ARE VISIBLE AND FUNDS CAN BE RAPIDLY PROGRAMMED AND DISBURSED THUS ALLOWING THE MISSION AND GOS TO NEGOTIATE IN EARNEST WITHIN THE WIDER CONTEXT OF THE ENTIRE REFORM PROGRAM. ACTIVITIES TO BE IDENTIFIED IN THE PAAD AND APPROVAL SOUGHT THROUGH AUTHORIZATION ACTION TO UTILIZE LOCAL CURRENCY GENERATIONS FOR SPECIFIED ACTIVITIES. BENEFICIARY IMPACT SHOULD BE ANALYZED AND CONSIDERED IN SELECTING USES OF LOCAL CURRENCY GENERATIONS.

--F. PAAD MUST INCLUDE ENVIRONMENTAL REVIEW. THOUGH A CATEGORICAL EXCLUSION MAY BE APPROPRIATE, THOUGHT SHOULD BE GIVEN TO THE GENERAL EFFECTS OF FERTILIZER ON DEGRADED SOIL (E.G., GROUNDNUT BASIN SOIL DEGRADATION).

4. ISSUES PAPERS AND QUESTIONS RAISED BY REVIEWING OFFICERS WITH RESPECT TO ESTABLISHMENT OF GRAIN RESERVE BEING POUCHED FOR MISSION CONSIDERATION.

5. AWAIT MISSION REQUEST FOR ANY ASSISTACE REQUIRED IN PREPARING PAAD. SHULTZ
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UNCLAS SECTION 02 OF 02 STATE 040289

ANNEX M

AID/W Go-Ahead Option Telegram

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C & R

1983 MAR -3 AM 8 54

VV TAA781ESC606
PP RUTADS
DE RUEHC #7286/01 0620804
ZNR UUUUU ZZH
P R 030628Z MAR 83
FM SECSTATE WASHDC
TO RUTADS/AMEMBASSY DAKAR PRIORITY 6727
INFO RUEHAB/AMEMBASSY ABIDJAN 3286
BT
UNCLAS SECTION 01 OF 04 STATE 057686

03 MAR 83
TOR: 1053
CN: 09258
ACTION: AID_
INFO: AMB
CHRON

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: SENEGAL - AGRICULTURE DECENTRALIZATION AND CREDIT (685-0249) PID

REF: AGRICULTURE SECTOR PID, DATED 2/12/82 AND AGRICULTURE DECENTRALIZATION AND CREDIT PID SUPPLEMENT, DATED 9/1/82

1. SUMMARY. PID NOT APPROVED FOR DEVELOPMENT OF PROJECT PAPER AS PROPOSED IN REFERENCED DOCUMENTS. RATIONALE FOR DISAPPROVAL CONTAINED PARA 2, BELOW. PARA 5 AND 6 PRESENT TWO OPTIONS FOR MISSION CONSIDERATION AND RESPONSE. OPTION 1 ALLOWS FOR PREPARATION OF A PAAD FOR A DOLS 5.0 MILLION ESF-FUNDED FERTILIZER IMPORT PROGRAM TO BEGIN IN FY 83 AND DEVELOPMENT OF A PROJECT PAPER FOR ASSISTANCE TO COOPERATIVES AND CREDIT DEVELOPMENT. OPTION 2 ALLOWS FOR THE PREPARATION OF A PAAD FOR 2659) 5.0 MILLION SIP-FUNDED FERTILIZER PROGRAM AND PREPARATION OF A PAAD FOR A DOLS-5.[illegible] MILLION ESF-FUNDED CIP; BOTH PROGRAMS ARE TO BEGIN IN FY 83. LOCAL CURRENCY GENERATED UNDER THE ESF COULD BE APPLIED TO ROADS MAINTENANCE AND REPAIR AND SIP GENERATIONS TO ACTIVITIES TO BE DETERMINED, AGREED TO BY BOTH AID AND GOS, AND JUSTIFIED BASED ON CRITERIA SIMILAR TO THAT USED FOR PROJECTS. END SUMMARY.

ADO

ACTION

INFO
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DDIR
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GMVS
Pro Con
[illegible]PO
ACQ
GDO
FFP
RHO
ADO
HRO
Chron
Reading
Embassy

2. RATIONALE FOR DISAPPROVAL:

--A. THE PID AND PID SUPPLEMENT GIVE INSUFFICIENT INFORMATION TO ALLOW APPROVAL OF EITHER A SECTOR GRANT OR PROJECT APPROACH IN THEIR PRESENT FORM. THE PRESENTATIONS LACK AN ANALYSIS OF THE REFORMS NEEDED IN THE AGRICULTURE SECTOR OR A CLEAR ARTICULATION OF WHICH REFORMS TAKE PRIORITY AND WHETHER A PROJECTIZED OR PROGRAM SECTOR GRANT SHOULD BE USED TO FACILITATE THEM. WHILE THE PLAN DE REDRESSEMENT PROVIDES A DESCRIPTION OF THE CURRENT PROBLEMS AND BROAD GUIDELINES OF THE REFORM PROGRAM, MISSING FROM THE MISSION SUBMISSION IS AN ANALYSIS OR ASSESSMENT OF THE SECTORAL PROBLEMS AND RELATED POLICY CONSTRAINTS. SUCH AN ASSESSMENT WOULD NORMALLY DESCRIBE PUBLIC AND PRIVATE INVESTMENT LEVELS AND AVAILABILITIES OF RESOURCES FOR RECURRENT COSTS AND AN ANALYSIS OF KEY SECTORAL INSTITUTIONS EXPECTED TO PROVIDE GOODS AND SERVICES TO THE SECTOR. FROM THE

ANALYSIS SHOULD FLOW A RANKING OF THE CONSTRAINTS AN CHANGES REQUIRED IN POLICIES, INSTITUTIONAL STRUCTURES AND RESOURCE ALLOCATIONS AND AN ASSESSMENT OF THE HOST GOVERNMENT FINANCIAL, POLITICAL AND INSTITUTIONAL CAPABILITY TO CARRY OUT THE CHANGES. THE SECTOR STRATEGY RESULTING FROM THIS ANALYSIS FOR IMPLEMENTING A PROGRAM TO ADDRESS THE PROBLEMS IS NEEDED. FINALLY, THERE SHOULD BE A DISCUSSION OF THE ROLE OF DONORS IN THE SECTOR AND THE MANNER IN WHICH AID'S PROGRAM FITS WITHIN THE TOTAL ASSISTANCE EFFORT AND A RATIONALE FOR SELECTION OF AID'S AREAS OF ASSISTANCE.

--B. ASSUMING THE ABOVE WOULD SUPPORT A SECTOR ASSISTANCE MODE, THE REFERENCED DOCUMENTS PROVIDE INSUFFICIENT DATA TO SUPPORT AN INTERVENTION IN THE CREDIT SUB-SECTOR. TO SUPPORT THE PROPOSED ASSISTANCE IN CREDIT (SPECIFICALLY THE NEW RURAL DEVELOPMENT BANK), INADEQUATE CREDIT SHOULD BE SHOWN AS A KEY CONSTRAINT TO ECONOMICALLY VIABLE PRODUCTION. THE PRESENTATION SHOULD HAVE DEMONSTRATED THAT THERE ARE INADEQUATE ALTERNATIVE SOURCES OF CREDIT AND THAT FUNNELLING CREDIT THROUGH THE BANK TO THE RESUSCITATED COOPERATIVES TO VILLAGE SECTIONS AND FINALLY TO INDIVIDUALS IS A WORKABLE, COST-EFFECTIVE APPROACH.

--C. PROPOSED REFORMS: THE PRESENTATIONS SHOULD HAVE CLEARLY SUMMARIZED THE REFORMS WHICH AID WOULD SEEK AND PRESENTED THE ANALYSIS FOR SELECTION OF THE REFORMS. SEEKING A POLICY OF SETTING A MARKET INTEREST RATE FOR THE NEW BANK IS AN ACCEPTABLE PROJECT RELATED POLICY REFORM AND THE PP COULD HAVE EXAMINED WHETHER THE RATE COULD BE SET AT A SUFFICIENTLY HIGH LEVEL TO PREVENT DECAPITALIZATION OF THE BANK WHEN A REASONABLE REPAYMENT RATE IS ASSUMED. HOWEVER, IT IS NOT A SUFFICIENT POLICY CHANGE TO WARRANT A SECTOR APPROACH.

--D. THE PID SHOULD HAVE DESCRIBED THE ROLE OF THE WEST AFRICAN MONETARY UNION (WAMU) AND HOW WAMU RESTRICTIONS ON THE SPREAD BETWEEN BORROWING AND LENDING RATES WOULD AFFECT THE BANK. IF AN ISSUE EXISTS, THE PID SHOULD HAVE IDENTIFIED WHETHER IT CAN BE ADDRESSED AT THE NATIONAL OR WAMU LEVEL.

--E. DECENTRALIZATION: THE SUPPLEMENT IDENTIFIED ONLY ONE CONSTRAINT -(I.E., IMPROVEMENT OF INFRASTRUCTURE, ESPECIALLY ROADS) THAT INHIBITS ENTREPRENEURS FROM EXPANDING TRADE AND INDUSTRY IN OUTLYING REGIONS OF

SENEGAL. IT SHOULD HAVE CONSIDERED WHETHER LOCAL CURRENCY RESOURCES SHOULD BE USED SOLELY TO ADDRESS INFRASTRUCTURE CONSTRAINTS OR WHETHER OTHER MARKETING AND ENTERPRISE CONSTRAINTYMMIGHT ALSO NEED TO BE ADDRESSED. THERE IS ALSO NO MENTION OF WHETHER REFORMS WERE NECESSARY IN THE TRANSPORTATION SUB-SECTOR.

--F. NEITHER A DESCRIPTION OF THE INTERRELATIONSHIP OF THE LOCAL-CURRENCY SUPPORTED ACTIVITIES (I.E., ROADS, COOPERATIVES, CREDIT) NOR THE RATIONALE FOR SELECTION OF THIS GROUP OF ACTIVITIES WAS PROVIDED.

3. DESPITE DISAPPROVAL TO PROCEED WITH PREPARATION OF PP AS PROPOSED, BUREAU WISHES TO ENCOURAGE MISSION TO PROCEED WITH DEVELOPING ITS PROGRAM APPROACH. BUREAU BELIEVES OPTION 2 PROVIDES THE OPPORTUNITY TO MOVE-AHEAD SLOWLY, AT THE SAME TIME OBTAIN A BETTER APPRECIATION OF THE AGRICULTURE SECTOR, AND MOVE CLOSER TO THE MODE OF ASSISTANCE DESIRED BY THE MISSION.

4. GIVEN THE DISAPPROVAL TO PROCEED WITH THE AGRICULTURAL DECENTRALIZATION AND CREDIT PROGRAM,AN OPTION OPEN TO THE MISSION IS TO PROCEED IMMEDIATELY WITH THE REQUIRED ANALYSIS OF THE CREDIT SITUATION, INCLUDING THE NEED FOR AN INSTITUTION, AND WHEN PREPARED, TO DEVELOP A PROJECT PAPER JUSTIFYING AID

ASSISTANCE (OPTION 1). AID/W BELIEVES, HOWEVER, THAT THIS COURSE OF ACTION WILL BE UNLIKELY TO RESULT IN AN AUTHORIZATION OF THE SDF-FUNDED PROJECT IN FY 1983 BECAUSE OF THE SUBSTANTIAL STUDIES AND ANALYSES REQUIRED. THIS OPTION OFFERED ONLY IF USAIDSTILL BELIEVES AN IMMEDIATE CREDIT PROJECT IS THE BEST-AND ONLY COURSE OF ACTION.

5. OPTION 1: UNDER THIS OPTION MISSION WOULD: (A) PROCEED WITH PREPARATION OF THE ESFPAAD FOR-IMPORTATION OF FERTILIZER ACCORDING TO THE GUIDANCE PROVIDED IN THE PAIP APPROVAL CABLE (STATE 40233); AND-(B) UNDERTAKE - DESIGN OF A COOPERATIVE DEVELOPMENT AND CREDIT PROJECT, FIT. PROJECT, USING HANDBOOK 3 GUIDANCE.- THERE COULD BE SEVERAL COMPONENTS,EACH REQUIRINGANALYSIS OF THE NEEDS- AND A DESCRIPTION OF HOW THE FUNDS WOULD BE USED.

UNDER THIS OPTION A PROJECT PAPER COULD BE PREPARED WITH TWO COMPATIBLE AND COMPLEMENTARY COMPONENTS I.E.-(1) CLIENT DEVELOPMENT AND TRAINING THROUGH-COOPERATIVESAND (2) THE PROVISION OF RESOURCES TO INCREASE THE PRODUCTIVITY OF RURAL PRODUCERS. IF THIS-OPTION IS SELECTED, IT WILL BE NECESSARY TO:(1) DESCRIBE THE DEMAND FOR CREDIT; (2) SHOW THAT INADEQUATE CREDIT-IS A PROBLEM; (3) DETERMINE THE SOURCES OF-CREDIT (E.G., SUPPLIER CREDIT, VILLAGE MONEY LENDERS, TRADERS, ETC.); (4) DESCRIBE APPROPRIATE TERMS FOR THE CREDIT; AND (5), DETERMINE IF ANYTHING CAN BE DONE TO INCREASE THE SUPPLY OF CREDIT FROM EXISTING-SOURCES. IF THESE ANALYSES SHOW THAT A NEW SAVINGS AND CREDIT INSTITUTION IS NEEDED, THE PP SHOULD DEMONSTRATE THE INSTITUTIONAL ANDFINANCIAL -

VIABILITY OF THE PROPOSED BANK AND GIVE EVIDENCE THAT LOCAL PRIVATE FINANCIAL INSTITUTIONS WILL INVEST IN IT. ASSISTANCE FROM THE PRE BUREAU TO REVIEW THE PROPOSED STRUCTURE AND CAPITALIZATION OF THE BANK AND SUGGEST ALTERNATIVES OR IMPROVEMENTS UPON THE CURRENTPROPOSAL IS RECOMMENDED. THE S&T RURAL SAVINGS FOR-CAPITAL - MOBILIZATION PROJECT (936-5313) IS AN ADDITIONAL SOURCE OF TECHNICAL SUPPORT. IF THE PROPOSED PURPOSE AND FINANCIAL VIABILITY CAN BE DEMONSTRATED, THENEXT TASK IS TO IDENTIFY THE TYPES OF LENDING ACTIVITIES, TECHNOLOGIES AND COMMODITIES FOR WHICH CREDITIS PROPOSED. MEDIUM-TERM CREDIT PORTFOLIOS SHOULD BE EVALUATED; EXAMPLES INCLUDE ANIMAL TRACTION EQUIPMENT, TOOLS AND SPARE PARTS, RICE HULLERS OR OTHER FOOD - , PROCESSING EQUIPMENT, TRANSPORT,-OR POSSIBLY VILLAGE STORAGE FACILITIES. THE ECONOMIC AND FINANCIAL-- VIABILITY OF THESE ITEMS/INPUTS SHOULD BE DEMONSTRAT.

THE NEED FOR ADEQUATE SUPERVISION FOR THESE CREDIT-FINANCED INPUTS SHOULD ALSO BE CONSIDERED.

SOME OTHER CONSIDERATIONS OF THIS OPTION ARE OFFERED:

--DISBURSEMENTS UNDER THIS MECHANISM ARE LIKELY TO BE SLOW, BECAUSE AID WILL PROVIDE ASSISTANCE ONCE THE INSTITUTION IS ESTABLISHED AND DISBURSEMENTS ARE TIED TO THE NEEDS FOR PARTICULAR GOODS AND SERVICES UNDER SUBLOANS MADE BY THE CREDIT INSTITUTION;

--THIS OPTION MOVES SUBSTANTIALLY AWAY FROM THE MISSION PROPOSAL TO PROVIDE MORE OF ITS ASSISTANCE IN THE NON-PROJECT MODES;

--WE BELIEVE THE POLICY REFORMS WHICH ARE BEING SOUGHT WITH RESPECT TO THE INSTITUTION ARE STILL APPROPRIATE AND ACHIEVABLE THROUGH PROJECT ASSISTANCE (E.G. INTEREST RATES, ESTABLISHMENT OF NON-SEASONAL LENDING ACTIVITIES

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WHICH WILL NOT LEAD TO DECAPITALIZATION OF THE BANK, ENCOURAGING RURAL SAVINGS, AND SEEKING LOWER-COST ADMINISTRATIVE MECHANISMS TO PROVIDE CREDIT); AND

--DESIGNING SUCH A PROJECT IS LIKELY TO BE TIME-CONSUMING AND DIFFICULT. THIS MIGHT PRECLUDE SUBMISSION OF A PROJECT PAPER THIS FISCAL YEAR. IN SUCH AN EVENT, THE MISSION COULD CONSIDER FULLY FUNDING ITS EXISTING PROJECTS THIS YEAR AND SUBMITTING A NEW CREDIT PROJECT FOR FY 1984 FUNDING.

6. OPTION 2: UNDER THIS WE WOULD EXPECT TO AUTHORIZE DOLS 10.8 MILLION IN NON-PROJECT ASSISTANCE (DOLS 5.0 MILLION ESF AND DOLS 5.8 MILLION SDP FUNDS) TO PROVIDE IMMEDIATE BALANCE OF PAYMENT RELIEF AND TO ACHIEVE AND SUPPORT KEY REFORMS BEING CONSIDERED DURING THE NEXT YEAR. LOCAL CURRENCY GENERATIONS WOULD RESULT IN A DOLS 10.8 MILLION CFA EQUIVALENT POOL OF RESOURCES TO SUPPORT ACTIVITIES REQUIRING LOCAL CURRENCY FINANCING. THE MACRO-ECONOMIC ANALYSIS REQUIRED FOR BOTH PROGRAM DOCUMENTS MUST JUSTIFY THE NEED FOR DOLS 10.8 MILLION IN FOREIGN EXCHANGE ASSISTANCE AND PLACE THE REFORMS IN THE CONTEXT OF THE NEGOTIATED IMF, IBRD, GOS PROGRAM AND SUMMARIZE THE OBJECTIVES OF THE PLAN.

--A. THE ESF ACTIVITY AS APPROVED FOR DEVELOPMENT OF THE PAAD WOULD BE A DOLS 5.0 MILLION LIFE-OF-PROJECT ACTIVITY. WHILE THE FOREIGN EXCHANGE WAS ORIGINALLY TO BE USED FOR FERTILIZER IMPORTS, IT IS NOW PROPOSED THAT A GENERAL COMMODITY IMPORT PROGRAM BE FINANCED. THE ELIGIBLE COMMODITIES WOULD BE ESTABLISHED BY AID HANDBOOK 15, APPENDIX B. LOCAL CURRENCY GENERATIONS MIGHT BE PROGRAMMED FOR THE RURAL ROADS MAINTENANCE AND REPAIR ACTIVITIES OR OTHER ACTIVITIES FOR WHICH JUSTIFICATION CAN BE PROVIDED. A CAUTIONARY NOTE RELATES TO THE NEED TO IDENTIFY COMMODITIES FOR WHICH DISBURSEMENTS CAN BE QUICKLY MADE, THEREBY PROVIDING IMMEDIATE BOP RELIEF.

--B. THE SECOND PORTION OF ASSISTANCE WOULD BE A PROGRAM ACTIVITY FUNDED FROM THE SAHEL DEVELOPMENT PROGRAM ACCOUNT USING THE DOLS 5.8 MILLION CURRENTLY IN THIS YEAR'S OYB FOR THE SUBJECT PROJECT. THE FOREIGN EXCHANGE WOULD BE PROVIDED THROUGH THE MECHANISM OF A FERTILIZER CIP. THE SHORT-TERM OBJECTIVE IS TO SUPPORT THE IMF, IBRD, PLAN DE REDRESSEMENT IN A SPECIFIC SUB-SET OF REFORMS RELATED TO MORE RATIONAL FERTILIZER MARKETING, DISTRIBUTION AND PRICING POLICIES. THESE FERTILIZER POLICY REFORMS ARE THUS SPECIFIC OUTPUTS OF THE SECTOR ASSISTANCE PROGRAM WHICH CONTRIBUTE TO ACHIEVEMENT OF A LONGER TERM DEVELOPMENT PURPOSE, E.G., INCREASING AGRICULTURAL PRODUCTIVITY.

THE GRANTS SHOULD FOLLOW HB HANDBOOK [illegible] GUIDANCE PROVIDED IN STATE 40289 (I.E., A PAAD IS REQUIRED AND IT IS NON-PROJECT AID). THE FERTILIZER IMPORTS SHOULD BE JUSTIFIED BASED ON TECHNICAL ECONOMIC AND FINANCIAL ANALYSES. WE ARE ALSO REPEATING TO DAKAR COPIES OF CABLES

AND KENYA WITH RESPECT TO THEIR DA-FUNDED FERTILIZER IMPORT PROGRAMS ARE BEING REPEATED TO DAKAR. THESE SHOULD BE HELPFUL IN DETERMINING THE SCOPE OF SUCH ANALYSIS.

AS THIS PORTION IS TO BE FINANCED USING SAHEL DEVELOPMENT FUNDS, THE LONG-TERM DEVELOPMENT IMPACT OF THE PROGRAM AND THE LINKAGES TO ACHIEVEMENT OF THE REFORMS MUST BE DEMONSTRATED. THIS GUIDANCE IS PARTICULARLY IMPORTANT IN VIEW OF CONGRESSIONAL CONCERNS IN THE FY 83 CONTINUING RESOLUTION REGARDING THE ;USE-OF DEVELOPMENT ASSISTANCE FUNDS FOR OTHER THAN PROJECT-ASSISTANCE. THUS, IT MUST BE SHOWN THAT LONG-TERM DEVELOPMENT GOALS CAN BE ACHIEVED THROUGH: (1) THE USE OF THE FOREIGN EXCHANGE FOR FERTILIZER IMPORTS; (2) THE POLICY REFORMS TO BE ACHIEVED; (3) THE WILLINGNESS OF THE GOS TO UNDERTAKE DEVELOPMENT ACTIVITIES OR OTHER MEASURES IN SUPPORT OF THE PROGRAM; AND (4) THE - DEVELOPMENTAL USE OF THE LOCAL CURRENCIES. TREATING THE

ESF PROGRAM IN A SIMILAR MANNER IS ALSO DESIRABLE BUT NOT MANDATORY.

EXAMPLES OF LOCAL CURRENCY USES WHICH SUPPORT REFORMS IN FERTILIZER MARKETING, DISTRIBUTION AND PRICING MIGHT INCLUDE A CREDIT STUDY, COOPERATIVE DEVELOPMENT ACTIVITIES AND MOVING THE DISTRIBUTION OF FERTILIZER INTO THE PRIVATE SECTOR. LAND REGENERATIOACTIVITIES MIGHT ALSO BE SHOWN TO HAVE A DEVELOPMENT IMPACT BY ASSURING THE FUTURE PRODUCTIVITY OF THE LAND. IT MUST BE DEMONSTRATED THAT THE PROPOSED ACTIVITIES CAN BE EXCLUSIVELY FINANCED WITH LOCAL CURRENCY. FOR EXAMPLE, THERE ARE QUESTIONS WHETHER THE ROAD MAINTENANCE AND REPAIR ACTIVITY CAN BE SHOWN TO BE A TOTALLY LOCAL CURRENCY COST. THE ~~ACTIVITIES WILL NOT BE DESCRIBED IN~~ DETAIL; HOWEVER,THE MECHANISM FOR THE REVIEW OF SPECIFIC PROPOSALS, THE ESTABLISHMENT OF A SEGREGATED ACCOUNT,

AND THE SUBSEQUENT RELEASE OF FUNDS SHOULD BE FULLY DESCRIBED AND THE AGREED CRITERIA FOR SELECTION OF ACTIVITIES PRESENTED. SUCH CRITERIA COULD BE BASED ON SECTION 611(A) OF THE FAA, FISCAL RESPONSIBILITY, AND ENVIRONMENTAL STANDARDS REQUIRED IN AID-FINANCED PROJECTS. WHILE WE ARE LEGALLY BOUND TO TRACK ONLY THE USE OF THE FOREIGN EXCHANGE, AGENCY POLICY IS TO - - ENCOURAGE FINANCIAL RESPONSIBILITY AND THE PROPER USE OF THE LOCAL CURRENCY.

IT IS POSSIBLE THAT THE NEED FOR CREDIT CAN BE DEMONSTRATED FOR THE FERTILIZER PROGRAM. HOWEVER, IF LOCAL CURRENCY GENERATIONS ARE TO FINANCE ANY CREDIT ACTIVITIES BEYOND STUDIES TO DETERMINE CREDIT DEMAND AND CONSTRAINTS, A COMPREHENSIVE ANALYSIS SHOULD BE COMPLETED AND SUBMITTED TO AID/W FOR REVIEW PRIOR TO RELEASE OF ANY LOCAL CURRENCIES FOR CREDIT. THIS APPROACH WILL ENABLE MISSION TO FURTHER INVESTIGATE THE QUESTIONS RAISED WITH RESPECT TO CREDIT, CONTINUE DIALOGUE WITH THE GOS REGARDING THE PROPOSED INSTITUTION, AND ALLOW AID/W CONCERNS REGARDING THE SPECIFICS OF A CREDIT PROGRAM TO BE MET.

SOME OF THE LOCAL CURRENCIES GENERATED MIGHT BE USED TO FUND THE ANALYTICAL WORK NEEDED FOR THE AGRICULTURE SECTOR ASSESSMENT. A LIMITED PORTION OF THE FOREIGN EXCHANGE FUNDS MIGHT ALSO BE RESERVED FOR THIS PURPOSE. THIS WOULD LAY THE ANALYTICAL FOUNDATION FOR AN AGRICULTURE SECTOR ASSISTANCE PROGRAM.

PAAD MUST INCLUDE ENVIRONMENTAL REVIEW. THOUGH A CATEGORICAL EXCLUSION MAY BE APPROPRITE FOR THE FOREIGN EXCHANGE COMPONENT, THE CRITERIA FOR LOCAL CURRENCY ACTIVITIES SHOULD INCLUDE A DESCRIPTION OF PROCEDURES FOR REVIEW OF ENVIRONMENTAL CONCERNS.

7. THE BUREAU BELIEVES OPTION 2 IS PREFERABLE TO OPTION 1. NEVERTHELESS, THE MISSION MAY SELECT-ITS-PREFERRED OPTION. NOTE, IF OPTION 2 IS SELECTED, THE MISSION SHOULD (A) SIMULTANEOUSLY TAKE STEPS-TO FULLY INVESTIGATE THE VIABILITY OF ASSISTANCE TO -THE AGRICULTURE CREDIT SUBSECTOR IN SENEGAL BY UTILIZING ASSISTANCE FROM PRE BUREAU AND (B) BEGIN N AGRICULTURE SECTOR ANALYSIS IF IT WISHES TO EVENTUALLY PROCEED-IN THE AGRICULTURE SECTOR PROGRAM ASSISTANCE MODE.

8. IF MISSION FINDS EITHER OPTION ACCEPTABLE, AID/W WILL APPROVE MISSION PREPARATION OF PROJECT-PAPER AND PAAD TO BE SUBMITTED FOR AID/W CONSIDERATION UNDER OPTION 1 OR THE PREPARATION OF TWO PAADS UNDER OPTION 2. PLEASE ADVISE MISSION PLANS AND REQUIRED-DESIGN ASSISTANCE. IF BUREAU ASSISTANCE OR FURTHER GUIDANCE REQUIRED, PLEASE ADVISE. DAM .
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ANNEX N

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