

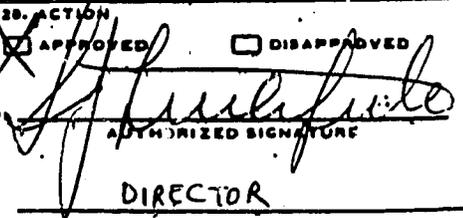
AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 685-0289 (685-K-606)
PAAD		2. COUNTRY SENEGAL
		3. CATEGORY Dollar Disbursement Structural Adjustment Program Grant (ESF-V)
		4. DATE March 31, 1987
5. TO: S.J. Littlefield, Director USAID/Senegal		5. OVB CHANGE NO.
7. FROM: Harold Lubell, Program Officer <i>HL</i>		6. OVB INCREASE TO BE TAKEN FROM:
8. APPROVAL REQUESTED FOR COMMITMENT OF: \$11,075,000		10. APPROPRIATION - 72-117/81037 GFS7-87-31685-KG31
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD
15. COMMODITIES FINANCED		14. TRANSACTION ELIGIBILITY DATE

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	\$200,000
Limited F.W.:		Industrialized Countries:	\$200,000
Free World:	\$500,000	Local:	\$100,000
Cash:	\$11,075,000	Other:	\$11,075,000

18. SUMMARY DESCRIPTION

A Structural Adjustment Program Grant in an amount not to exceed eleven million five hundred seventy five thousand U.S. dollars (\$11,575,000) to the Republic of Senegal, subject to the conditions, covenants and other terms set forth in this PAAD, is authorized out of Economic Support Funds. The purpose of this Program Grant is to assist Senegal to maintain economic and political stability while promoting structural and agricultural reforms needed to redress the underlying problems of the economy.

Of the \$11,575,000 of this Program Grant, \$11,075,000 will be a cash transfer to provide direct budgetary support to the Government of Senegal (GOS), and \$500,000 will be reserved for studies and technical assistance in support of structural adjustment measures being undertaken by the GOS. Disbursement of the \$11,075,000 cash transfer may be made to the GOS account in the Chase-Manhattan Bank, New York, in two tranches of \$6,000,000 and \$5,075,000 respectively.

19. CLEARANCES	DATE	20. ACTION
REG/DP	_____	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC	_____	 AUTHORIZED SIGNATURE
AA/PPC	_____	
M/EM	_____	
M/SER/COM	_____	
AA/PRE	_____	
RCON/Dakar: JIto <i>J. Ito</i>	4/1/87	4/15/87 DATE
		DIRECTOR TITLE

Local currency uses will be decided upon jointly by USAID and the GOS. Such uses will be selected from activities that effect the performance criteria in the IMF-Ministry of Finance financial operations table (TOF). The basic principle for selection is that the local currency will reduce the Government of Senegal's arrears to the banking system and to the private sector.

If required, waivers will be requested on a case-by-case basis.

The following conditions precedent and special covenants will in substance be included in the Program Grant Agreement.

1. Standard Conditions Precedent to Release of First Tranche

The GOS will furnish to A.I.D., in form and substance acceptable to A.I.D., the standard documentation dealing with the required GOS legal opinion, specimen signature, bank account number, and identification of authorized GOS representatives.

2. Other Conditions Precedent to Release the First Tranche

a. Improving Policy Reform Management

The GOS will provide confirmation that a procedure is in place for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss (a) progress on agricultural reform and other aspects of structural adjustment and (b) the status of analysis and decisions related to structural adjustment measures proposed or being implemented.

b. Damping Imported Rice Consumption

The GOS will provide the terms of reference for a study of measures to reduce rice imports. Such a study will examine, inter alia, (a) options for setting the domestic price of rice, if and when the world price recovers to a level beyond that reflecting a 25 percent level of protection for locally-produced grains (millet, sorghum, maize, cowpeas), (b) measures for reducing domestic consumption of rice as called for in the GOS cereals plan, and (c) a fiscal instrument for replacing the perequation on imported rice.

c. Reducing Agricultural Sector Deficits

(1) The GOS will confirm that SONACOS is actively attempting to collect from farmers the peanut seed credit issued during crop year 1986/87 and will provide a status report on repayments to date. If that credit is not repaid by the farmers, SONACOS will absorb the loss.

(2) The GOS will agree to undertake a study on producer price relationships between cereals and peanuts. Such a study will also examine price differentials between Senegal and The Gambia.

(3) The GOS will confirm that an audit of SONACOS has been initiated.

(4) The GOS will agree to undertake an audit of the CSS.

d. Encouraging Private Sector Agro-Industry

The GOS will provide the terms of reference of a study on the constraints limiting the effectiveness of the banking system to support small and medium scale enterprises.

3. Conditions Precedent to Release of Second Tranche

a. Improving Policy Reform Management

USAID will determine that the procedure for holding quarterly meetings between USAID and the GOS on progress on structural adjustment is functioning satisfactorily.

b. Damping Imported Rice Consumption

The GOS will provide a draft acceptable to USAID of the study on measures to reduce rice imports, and a timetable for establishing a plan of action for achieving that end.

c. Reducing Agricultural Sector Deficits

(1) The GOS will provide evidence that the crop year 1986/87 peanut seed credit has either been repaid by the farmers or absorbed by SONACOS.

(2) The GOS will provide a substantive progress report satisfactory to USAID on the study on producer price relationships between cereals and peanuts.

(3) The GOS will provide a substantive progress report on the SONACOS audit.

(4) The GOS will provide a substantive progress report on the CSS audit.

d. Encouraging Private Sector Agro-Industry

The GOS will provide a summary satisfactory to USAID of the interim results of the study of constraints on the banking system for channeling credit to small and medium scale enterprises, and will confirm its intentions to remove such constraints.

4. Special Covenants

a. Damping Imported Rice Consumption

The GOS will adhere to the current timetable for privatization of rice imports, namely that the private sector will be responsible for 25 percent of rice imports for the period December 1, 1986 - November 30, 1987, and for the entire quantity of commercial imports for the period December 1, 1987 - November 30, 1988, except for CPSP imports for managing the security stock of 60,000 MT.

b. Reducing Agricultural Sector Deficits

Based on the sugar production study and the CSS audit, the GOS will implement its plan for reform of the sugar sector.

CONTENTS

	Page
Abbreviation and Acronyms	iv
I. Executive Summary	1
A. Amount, Purpose, and Grantee	1
B. Program Summary	1
C. Conditions for Disbursement	2
D. Program Mechanism	3
E. Local Currency Uses	3
F. Technical Assistance and Studies	3
II. Mission Objectives	3
III. Current Economic Situation	4
A. Gross Domestic Product	4
B. Agricultural Production	4
C. World Price Changes and Senegal's Balance of Payments	5
D. Public Finance Situation	6
IV. Status of GOS Structural Adjustment Program	8
A. GOS Programs and the New Policy Framework Paper (PFP)	8
B. World Bank Structural Adjustment Credits	9
C. Other Donor Assistance	10
D. FY 1986 USAID Programs	10
1. ESF-IV	10
a. Reorganization of the Imported Rice Sector	11
b. Phasing-Out of Price Equalization	12
c. Agro-Industry	13
2. PL 480 Title I	14
3. Agricultural Production Support Project	14
V. ESF-V Program Description	15
A. ESF-V Objectives	15
1. Improving Policy Reform Management	15
2. Dampening Imported Rice Consumption	16
3. Reducing Agricultural Sector Deficits	17
4. Encouraging Private Sector Agro-Industry	17

	<u>Page</u>
B. Proposed ESF-V Conditions	18
1. Standard Conditions Precedent to Release of First Tranche	18
2. Other Conditions Precedent to Release of First Tranche	18
a. Improving Policy Reform Management	18
b. Damping Imported Rice Consumption	18
c. Reducing Agricultural Sector Deficits	18
d. Encouraging Private Sector Agro-Industry	19
3. Conditions Precedent to Release of Second Tranche	19
a. Improving Policy Reform Management	19
b. Damping Imported Rice Consumption	19
c. Reducing Agricultural Sector Deficits	19
d. Encouraging Private Sector Agro-Industry	19
4. Special Covenants	19
a. Damping Imported Rice Consumption	19
b. Reducing Agriculture Sector Deficits	20
5. Relation to Other Mission Conditionality	20
C. Implementation and Management Procedure	20
1. Financial Mechanisms	20
2. Local Currency Uses	21
3. Audit Considerations	22
4. Implementation Schedule	22
5. Mission Management	23
6. Waivers	23
D. Technical Assistance and Studies	23
VI. Special U.S. Interests	24

	Page
<u>Annexes</u>	27
1. Statistical Tables	29
2. Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1986/87 - 1988/89 (from "Senegal: Policy Framework Paper, 1987-89", dated September 19, 1986)	43
3. Status of ESF-IV (FY 85) Conditionality as of 1/15/87 (685-0288/685-K-604)	47
4. Agricultural Policy Conditionality Comparison Chart: USAID Portfolio and Related Elements of GOS/World Bank/LUMF Policy Framework Paper	53
5. Initial Environmental Examination	54
6. Statutory Checklist	55
7. GOS Request for Assistance	73
8. Guidance Cable (STATE 070741) and reply (DAKAR 3165)	74
9. Local Currency Uses, ESF-IV and ESF-V	80
10. Action Memorandum	91
 <u>Statistical Tables (Annex 1)</u>	
1. Senegal : Gross Domestic Product (Sources and Uses), 1981 - Projected 1987	29
2. Senegal: Quantity of Production of Principal Industrial Commodities, 1981 - 1986 (First Half)	30
3. Senegal: Index of Industrial Production, 1981 - 1986	31
4. Senegal : Agricultural Production, 1981/82 - 1986/87	32
5. Senegal : Balance of Payments, 1983/84 - 1986/87 (in US\$)	33
6. Senegal : Imports, 1981 - 1986 (in CFAF)	34
7. Senegal : Exports, 1981 - 1986 (in CFAF)	35
8. Government of Senegal : Financial Operations Table (TOF), 1983/84 - Projected 1986/87	37
9. Government of Senegal: Tax and Non-Tax Receipts by Category, 1979/80 - 1986/87	39
10. Senegal : Surplus or Deficit on Exports of Peanuts, 1983/84 - 1985/86	40
11. Senegal : Sugar Production and Subsidy Accruing to Compagnie Sucrière Sénégalaise (CSS), 1983 - 1986	41
12. Senegal : Donor Assistance, CY 1986 Commitments	42

Abbreviations and Acronyms

AEPRP	Africa Economic Policy Reform Program
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
CPSP	Caisse de Péréquatation et de Stabilisation des Prix
CCCE	Caisse Centrale de Coopération Economique (French aid fund)
CFA	CFA franc (monetary unit of the West African Monetary Union) 1/
CSS	Compagnie Sucrière Sénégalaise
ECPR	Executive Committee Project (Program) Review
ESF	Economic Support Fund
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
ISRA	Institut Sénégalais de Recherches Agricoles
GDP	Gross domestic product
ONCAD	Office National de Coopération et d'Assistance pour le Développement
PFP	Policy Framework Paper
RDA	Rural Development Agency
SAR	Société Africaine de Raffinage
SDRS	Special drawing rights (IMF)
SEIB	Société Electrique et Industrielle de Baol
SONACOS	Société National de Commercialisation des Oléagineux du Sénégal
WAMU	West African Monetary Union

1/ Current exchange rate is CFAF 330 per US\$.

I. Executive Summary

A. Amount, Purpose, and Grantee

USAID/Senegal recommends authorization of an Economic Support Fund Structural Adjustment Grant (ESF-V) of \$11,575,000 to the Republic of Senegal. Of the grant, \$11,075,000 will be in the form of a cash transfer for budgetary support to be released in two tranches of \$6,000,000 and \$5,075,000 when conditions precedent to each tranche are met; and \$500,000 will be reserved to support the identification and selection of policy options related to the purpose of the grant.

The purpose of the grant is to assist the GOS to attain economic growth and maintain political stability while promoting a package of structural adjustment measures related to cereals policy and the reduction of price subsidies arising from GOS commitments to support agro-industry (particularly sugar and peanuts).

B. Program Summary

ESF-V builds on the accomplishments of ESF-IV and points our resources to the critical challenge of implementing the policy reforms that the Senegalese Government now has in place. After two years of implementation experience and considerable progress on the policy reform package agreed to at the Consultative Group meeting of December 1984, we are now in a better position to pinpoint the reforms that are most critical and to appreciate which ones are the most difficult to carry through. We are also beginning to see the strains and contradictions inherent in any serious reform process, as the donors and the GOS move from identifying and correcting the most obvious distortions to working out the implementation details and tracing through the full implications of reforms in individual sectors and subsectors. We are satisfied with the pace of reforms and the progress the GOS has made in the most essential areas covered by ESF-IV conditionality (domestic rice privatization and CPSP dismantling with respect to the peanut sector) but we remain concerned with the agro-industry deficits.

Since the design of ESF-IV, a GOS/World Bank/IMF Policy Framework Paper (PFP) and a Cereals Plan have been formulated to guide the policy reform process. The PFP (World Bank document Sec M 86-1143, 10/15/86) was negotiated with the GOS as the basis for Senegal's first allocation out of the IMF World Bank structural adjustment facility. The PFP encompasses two key strategies: the promotion of private sector initiative through appropriate pricing and other incentive policies, particularly in agriculture and industry, coupled with a progressive withdrawal of the government and public agencies from direct involvement in production activities; and the achievement of greater efficiency in public resource management through improvements in the allocation and implementation of public investments, reform of the public enterprise sector, and strengthening of government finances. The PFP contains a detailed list of reforms across several sectors and sub-sectors.

The donor approved-GOS Cereals Plan of June 1986 spells out a sub-sector strategy for encouraging expanded, more diversified local cereals production and consumption through producer incentive floor pricing, liberalized private trading, and artificially high prices for imported rice. As the state withdraws from direct productive activities, farmers will be responsible for their own decisions and production costs.

In this setting we propose to use this ESF-V to consolidate our gains and to target our assistance on a more select group of remaining reforms directly related to the New Agricultural Policy and the Cereals Plan. The first objective of ESF-V, which is a logical extension of the basic concept of ESF-IV, is to improve the management of the reform process to enable the GOS to reconcile the emerging contradictions, adjust policy actions to actual responses by producers and consumers, to synchronize the application of the complex set of reforms under way, and to wield the various policy instruments at their disposal more sensitively and purposefully. To support this process, we want to use ESF-V to structure our dialogue with the GOS on the key agriculture reforms in a more formal setting than hitherto and on the basis of timely policy studies.

In addition to improved management of the reforms, we will support through our conditionality two other specific objectives related to rice policy and agro-industry: (1) damping rice consumption through high prices for imported rice as a way of encouraging production and consumption of local cereals, and (2) the reduction of financial deficits caused by subsidized agricultural production of cash crops ~~like sugar and~~ (peanuts) which divert resources away from investments in local cereals and delay stabilization efforts. Thus, ESF-V will be provided in two tranches tied to specific progress on conditions and covenants relating mainly to the establishment of a quarterly progress review procedure and to the identification and selection of options for addressing issues of cereals pricing and peanut ~~and sugar~~ subsidies. We will leave it to the World Bank and the IMF to address the most difficult stabilization and structural reform issues such as further privatization of rice imports, and restructuring of the peanut processing industry.

C. Conditions for Disbursement

The \$11,575,000 ESF-V structural adjustment grant is provided to the GOS to support implementation of the policy reforms outlined above and described in more detail in Section V.A below. Disbursement of the \$11,075,000 cash transfer in two tranches will be subject to the conditions precedent and special covenants described in detail in Section V.B below. The \$500,000 reserved for the identification and selection of policy options will be used for direct payment by USAID of costs associated with relevant studies and technical assistance, in consultation with the GOS.

ESF-V conditionality is complemented by the self-help measures proposed for the FY 87 PL 480 Title I Loan and the conditionality attached to our new Agricultural Production Support project, all of which directly support implementation of the Cereals Plan.

D. Program Mechanism

The cash transfer of \$11,075,000 will be converted to CFAF at the rate of exchange prevailing at the time of transfer of each of the two tranches of \$6,000,000 and \$5,075,000 for deposit to a special account at the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). Disbursement will be made from this special account only with USAID concurrence and for purposes jointly agreed upon by USAID and the GOS.

Subject to the availability of funds and mutual agreement of the GOS and USAID to the terms and conditions set forth in this Program Assistance Approval Document (PAAD), the cash transfer will be disbursed to the GOS in two tranches of \$6,000,000 and \$5,075,000 upon fulfilment of conditions precedent described below and specified in the Program Grant Agreement.

The Ministry of Economy and Finance will act as the principal implementing agency.

Concurrent with the signature of the Program Grant Agreement covering the \$11,075,000 cash transfer, a Limited Scope Grant Agreement will be signed with the GOS in the amount of \$500,000 for direct payment, by USAID of the foreign exchange and local currency costs associated with studies and technical assistance related to the purposes of the structural adjustment grant.

E. Local Currency Uses

Local currency uses will be decided upon jointly by USAID and the GOS. Such uses will be selected from activities that affect the performance criteria in the IMF-Ministry of Finance financial operations table (TOF). The basic principle for selection is that the local currency will reduce the Government of Senegal's arrears to the banking system and to the private sector.

F. Technical Assistance and Studies

Of the \$11,575,000 ESF-V grant, \$500,000 will be set aside to support the policy studies called for in the conditionality.

II. Mission Objectives

The Mission has two major objectives for this ESF structural adjustment grant.

The first is to support the central theme of the Mission program, namely the development of cereals production as part of agricultural reform outlined in the GOS's New Agricultural Policy of April 1984 and its Cereals Plan of June 1986. For USAID, the ESF grant is part of a package that includes the Agricultural Production Support project, the Irrigation and Water Management II (Bakel) project, the future Southern Zone Water Management project, technical assistance to the millet transformation project, and support to the Senegalese Institute for Agricultural Research (ISRA). Within agriculture

policy, we have two sub-objectives: reducing demand for rice imports by price restraints on demand for rice and by encouragement of millet production; and diversification of crop production away from peanuts into maize and cowpeas.

The second major objective is to reduce or eliminate the financial drain on the GOS treasury of price subsidies arising from GOS commitments to support agro-industry (sugar and peanuts).

A parallel institutional objective is to develop a more structured framework for the policy dialogue between the Mission and the GOS through the creation of an interministerial working group on policy reform within the GOS.

III. Current Economic Situation

A. Gross Domestic Product

In 1986, GDP rose by 13.5 percent, reflecting an increase in real (constant price) terms of 4.9 percent (according to the World Bank) and an overall price inflation of 8.2 percent. However, the underlying trend of Senegal's economy in the early 1980s has been one of near stagnation: the average annual growth rate from 1979 to 1986 in aggregate GDP is estimated at 2.3 percent, significantly less than the population growth rate of 2.9 percent (see Annex 1, Table 1).

Of the major productive sectors, agricultural production has fallen in drought years and more-or-less recovered in subsequent years of adequate rainfall. Agricultural production suffered from severe drought in 1984 but did much better in 1985 and in 1986 when rainfall was adequate although uneven and there was a positive response to policy changes.

Industrial output has been stagnating over the medium term but picked up during the first half of 1986 (see Annex 1, Tables 2 and 3). Mining output rose from 1983 to 1985 but at a slower rate each year. Production of the peanut oil crushing mills recovered slightly in 1985 from the drop in 1984, but rose more sharply in 1986. Other industrial output reacts to fluctuations in agriculture both in response to the availability of supply of inputs from agriculture into industrial processing and in response to consumer demand generated by agricultural incomes. Production of the leather and textile industries rose in 1986. Production of the metal industries declined. The initial effects of import tariff reductions and removal of quantitative restrictions implemented in July 1986 are likely to be disadvantageous to local industrial production.

B. Agricultural Production

After the severe fall in agricultural production in 1984/85, the last two crop years, 1985/86 and 1986/87, have been relatively good (see Annex 1, Table 4). Agricultural output results were poor in the 1984/85 crop year because of a severe drought in 1984. In 1985/86, millet production reached high levels (950,000 MT) because of adequate rains in most parts of Senegal in 1985 and because of two major policy changes: (a) removal of restrictions on in-country movement of cereals; and (b) setting of a floor price for procurement of cereals (millet, sorghum, and maize). The floor price for

millet was maintained despite the good size of the crop. However, peanut production was mediocre (600,000 MT) and sales to the oil mills for crushing came to only 340,000 MT. Cowpeas made a spectacular entry as a major crop.

In 1986, the rains were uneven and there was some crop damage from grasshoppers. Millet production was held back by late rains and production for 1986/87 is expected to be average. The financial requirement to maintain the floor price for cereals is still uncertain. Peanut production is high, and is expected to be well above the previous year's crop. Deliveries to the oil crushing mills will also be high - and costly to the GOS in terms of effective subsidies on exports of peanut products. The deficit on the peanut crop will be considerably higher than the previous year's and will be at the charge of the GOS if the GOS's new Peanut Guaranty Fund is not financed by the donors.

Maize production is growing steadily. Cowpeas have a great potential. Production of rainfed rice in Casamance and irrigated rice in the Senegal River basin is also growing steadily.

Sugar cane production at Richard Toll in the Senegal River basin was close to 700,000 MT in 1985/86, sufficient to supply the entire input for the production of refined sugar by the French-owned Compagnie Sucrière Sénégalaise (CSS), which came to about 65,500 MT in 1985/86. However, the production costs are extremely high and the CSS runs increasingly heavy deficits despite domestic refined-sugar prices three times the world price. The cumulative claims on the CPSP (price equalization and stabilization fund) to cover the deficits of the CSS came to CFAF 8.7 billion in December 1986.

C. World Price Changes and the Balance of Payments

Declines in world price levels have affected Senegal's balance of payments and budgetary situations both positively and negatively. On the positive side, the costs of Senegal's imports have been reduced by declines in petroleum prices, in rice and wheat prices, and in the U.S. dollar exchange rate. These price declines have helped reduce the balance of payments deficit and have had positive effects on the GOS budget through increased profits accruing to the oil refinery (SAR) and positive perequations accruing to the CPSP. On the negative side, the fall in the prices of Senegal's main exports, peanut products and phosphates, has reduced export receipts and increased the peanut sector's claims on the GOS budget. The 1985/86 deficit of SONACOS will be covered by payments of past positive perequations from the CPSP and SONACOS profits on vegetable oil sales in Senegal; but the GOS has established a Peanut Guaranty Fund through which it hopes to cover the peanut sector's deficit next year.

According to preliminary estimates of Senegal's balance of payments for 1985/86 and projections for 1986/87 (see Annex 1, Table 5), the values of both exports and imports are projected to decline in 1986/87 in dollar terms because of the fall in world prices. The trade deficit is projected to fall by 25 percent, from -\$221.8 million in 1985/86 to -\$167.4 million in 1986/87. Net invisibles (before rescheduling of interest on public debt) are projected to turn slightly positive. Net services are projected at -\$144.1 million.

Net transfers (before rescheduling of amortization due on public debt) are projected at \$147.5 million, including \$19.9 million of private transfers (mostly emigrant remittances). With a positive balance on capital account of \$126.8 million, the overall deficit before debt rescheduling is projected at -\$37.2 million. After debt rescheduling, the projection for the overall balance is positive, at \$21.6 million.

The commodity composition of imports is shown in Annex 1, Table 6 and of exports in Annex 1, Table 7.

D. Public Finance Situation

The GOS had a hard time meeting each end-of-quarter target for performance criteria in 1985/86 in the IMF financial operations table (TOF) for Senegal. However, shortfalls on domestic receipts targets through June 30, 1986 were compensated by last minute inflows from donors, and a new one-year IMF stand-by was authorized for the period November 1986-October 1987 supplemented by a structural adjustment facility advance. The performance criteria for the first two quarters of 1986/87 (through 12/31/86) also have been met. The most recent projections for the TOF are shown in Annex 1, Table 8.

Domestic receipts increased in FY 1985/86 by only 7.2 percent over the previous year's level (see Annex 1, Table 9) instead of the 10.6 percent initially targeted. Import taxes were especially far below target, in part because of the fall in import prices and in part because importers postponed new imports and clearance of goods already held in the port in expectation of the reduction in customs tariffs rates announced in July 1986. Since July 1986, official imports and import taxes have recorded a sharp jump.

Current operating expenditures of the GOS were held pretty much in line with targets, by more-or-less holding the line on government employment and salary rates, by choking off current purchases of supporting goods and services, and probably by increasing arrears on payments due to local suppliers.

Of particular interest to USAID and the other donors are the budget surpluses resulting from imports of petroleum, rice, wheat, and vegetable oil, and the deficits on peanut product exports and on the CSS sugar operation, since GOS budget shortfalls intensify the urgency of GOS requests for donor assistance.

The fall in world petroleum prices has provided a windfall profit to the GOS-owned SAR refinery estimated at a minimum of CFAF 45 billion (\$136 million), which the SAR is supposed to pay into the GOS Treasury in 1986/87. How much the Ministry of Finance will be able to hold on to after the end of the fiscal year is still in question, since the big industrial consumers of energy, in particular the ICS fertilizer plant, the phosphate producers, and the fisheries, are all clamoring for reductions in energy prices to reduce their competitive disadvantage vis-à-vis foreign producers. The GOS has in fact agreed to examine the claims of the phosphate sector for adjustments after June 1987.

Because of the low world price for rice and the high administered internal consumer price for rice in Senegal, rice imports now result in a positive perequation through the CPSP of some CFAF 20 billion (\$60 million) per year. This is a boon for the GOS Treasury but it nevertheless raises some problems:

- The price margin provides a major incentive for smuggling (re-exports of rice imported into The Gambia).
- The implicit tax (the positive perequation) is slated to become explicit, and therefore politically delicate, in 1988/89.
- The economic (as opposed to the public finance) rationale for maintaining the present consumer price of rice is weakened by the fact that the consumer price of rice is greatly in excess of the level corresponding to a 25 percent rate of protection for domestically produced coarse grains.

In 1985/86, the CPSP had a positive perequation on wheat, imported from France. The fall in world wheat prices has intensified competition among producer countries to subsidize their wheat exports. In the case of Senegal, the U.S. recently out-subsidized France in cornering the wheat market for 1986/87. The new low price should result in a continuation of an effective positive perequation for the CPSP.

Imports of vegetable oil, like rice, in the past have generated positive perequations in the CPSP. However, the potential boon for the GOS Treasury has been pre-empted to reduce the loss of SONACOS on exports of peanut products. As noted earlier, the loss on exports of peanut products results from an increase in the procurement price for peanuts in the same year that world prices fell sharply. As shown in Annex 1, Table 10, procurement prices in Senegal were raised from CFAF 60/kg (net) in 1984/85 to CFAF 90/kg in 1985/86 while the world peanut price fell from the equivalent of CFAF 152.8/kg to CFAF 75/kg, turning a CFAF 9.1 billion surplus on exports of peanut products in 1984/85 into a CFAF 10.5 billion deficit in 1985/86. The accounting deficit of SONACOS in 1985/86 will be covered in part by CFAF 6.3 billion of payments from the CPSP of arrears on past positive perequations and in part by the above-mentioned positive perequation on imported vegetable oil. For 1986/87, the GOS is relying on donor financing (presumably a STABEX loan) for its newly created Peanut Guaranty Fund to cope with the expected losses of SONACOS on processing for export of the peanut crop now coming in.

The high cost of the CSS sugar operation at Richard Toll takes a heavy toll on Senegalese consumers, on other industrial producers (in food-processing), and on the GOS budget. The high domestic price of refined sugar represents even more of a tax on consumers than the rice price. As an industrial input, the high cost of sugar is a major impediment to the canning and processing of locally grown fruits and condiments. Refined sugar is sold at a financial loss even at the high local market price, and the GOS Treasury is obliged to cover the loss by a subsidy (a negative perequation payable to the CSS from the CPSP) (see Annex 1, Table 11). The milk processors get their sugar at less than half the market price, but the CPSP bears the cost of the subsidy to them. The volume of sugar sold by the CSS during the first half of the 1980s averaged about 70,000 MT per year, having declined from 82,000 MT in 1980/81 to 65,000 MT in 1985/86. Given the high price of sugar in Senegal, it is estimated that 10-15,000 MT per year of sugar are smuggled in from The Gambia.

IV. Status of GOS Structural Adjustment Program

A. GOS Programs and the New Policy Framework Paper (PFP)

Senegal's structural adjustment program was set out in December 1984 in the Medium and Long Term Action Plan, which incorporated the April 1984 New Agricultural Policy. It was subsequently amplified by the New Industrial Policy statement of February 1986 and by the Agricultural Policy statement and the Cereals Plan submitted to the donors meeting on the Agricultural Sector in June 1986. The most recent policy formulation is a new Policy Framework Paper (PFP) dated September 1986 prepared by the GOS in conjunction with the World Bank and the IMF as the basis for the first IMF structural adjustment facility advance to Senegal.

As noted in a recent IMF staff report, the GOS has made substantial progress in implementing economic and financial adjustment measures since 1983. The economy has been progressively liberalized, agricultural incentives have been strengthened (in the case of peanuts, perhaps too much, in view of the world market situation), the overall fiscal deficit has been sharply reduced, public enterprise reform has been initiated, domestic credit expansion has been brought under control, and the external payments position has been improved. Nevertheless, economic growth has been slow, because of the adverse effect of drought (even in 1985 which was a relatively good rainfall year) and continuing structural adjustment problems in several sectors.

The PFP presents "a coherent set of supply-side and demand management policies designed to alleviate the macroeconomic and structural problems in the economy, thereby promoting balance of payments adjustment and economic growth." It covers:

- the GOS public investment program;
- agricultural policy;
- industrial policy;
- energy policy;
- fiscal policy;
- parapublic sector reform;
- monetary and credit policy;
- external debt management.

The agricultural policy component of the PFP is the one of most direct concern to ESF-V conditionality. The PFP (on p.6 of the document) confirms "that the GOS will vigorously implement its cereals plan, and that with the abandonment of the past practice of rigid pricing and trading arrangements, more weight will be given progressively to economic factors in determining producer prices.... A study will be undertaken with World Bank assistance to develop a model to facilitate the determination of producer prices, in the future ", leading to a "review of producer prices of cereals to be put into effect in the 1987/88 growing season.... Steps will be taken to develop the processing of coarse grains to respond to local consumer tastes.... The retail price of rice will be kept at a level that will provide a minimum nominal protection above import cost of 25 percent to producers of domestic coarse

grains (other than rice). The GOS "remains committed to reducing progressively the involvement of the CPSP in rice operations and to privatizing rice imports and internal distribution."

To encourage the development of groundnut production, the GOS intends "to keep the producer price at a level that would continue to provide adequate incentives to farmers, while being mindful of world market trends and financial constraints."

The table summarizing the objectives, strategies, and time frame for the macroeconomic and structural adjustment policies specified in the Policy Framework Paper is reproduced as Annex 2 below.

B. World Bank SAC Structural Adjustment Credits

The widest-ranging set of effective donor policy conditions was contained in the Development Policy Letter agreed to in December 1985 by the GOS and the World Bank as the basis for the second tranche of the World Bank's Second Structural Adjustment Credit (SAC-II). The World Bank's conditionality in the December 1985 Development Policy Letter covered the following areas:

- agreement with the World Bank on a satisfactory action program for the development of domestic cereals production;
- adoption of a new draft tariff code satisfactory to the World Bank and consistent with the new industrial policy;
- revision of the export subsidy scheme to an industrial value added basis;
- effective separation of the rice operation from the CPSP, and privatization of importing and internal marketing of rice consistent with the principles outlined in the letter of Development Policy;
- satisfactory review by the World Bank of the first three-year (1987/88 1989/90) public investment program;
- agreement on a satisfactory action program for policy and institutional reform in the industrial sector.

The GOS managed to meet the conditions considered essential by the World Bank for releasing the second tranche of SAC-II at the end of June 1986, but with some important compromises of initial World Bank positions intervening in the 18-month implementation of the policy package. The GOS is, on the whole, moving along the policy track agreed upon with the donors, but at different speeds for different policies. The major compromise was taken in regard to progressive privatization of rice imports, by postponing initial deadlines for carrying out the successive steps agreed to in January 1986.

The World Bank's third structural adjustment credit (SAC-III), which is expected to be in place by June 1987, will have three main themes: increasing the productivity of management of the public sector; stimulating private investment; and improving financial intermediation. Details are not yet available.

C. Other Donor Assistance

As indicated in the TOF (Annex I, Table 8), the entire capital expenditure of the GOS is financed by donor grants or loans. As estimated by the GOS and the IMF in the TOF, projected disbursements of donor assistance (excluding debt rescheduling) for 1986/87 come to CFAF 70.0 billion (equivalent to \$212 million at an exchange rate of US\$1 = CFAF 330): CFAF 15.0 billion of grants, CFAF 53.8 billion of loans and CFAF 1.2 billion of net drawings on the IMF. Including debt rescheduling, total aid is projected at CFAF 89.7 billion (\$272 million).

As estimated by USAID/Senegal from a survey of donor missions in Dakar, commitments of donor assistance came to \$747 million in CY 1986, \$470 million in grants and \$377 million in loans. Multilateral donors accounted for \$24. million, and bilateral donors for \$501 million (see Annex I, Table 12). France was the largest donor (\$216 million) followed by the World Bank (\$124 million), with Italy (\$65 million) and the U.S. (\$60 million) falling far behind.

D. FY 1986 USAID Programs

1. ESF-IV

ESF-IV conditionality was formulated in order to keep the attention of the GOS on implementation of specific elements of the wider policy package contained in the Medium and Long Term Action Plan negotiated with the GOS by the World Bank, the French, and ourselves in 1984. The total policy package is a crowded one, with different deadlines for the various components. The GOS is now moving the policy package forward as a whole, but with the components progressing at different rates of speed as some of the deadlines slip.

The GOS has fulfilled the greater part of the conditionality of ESF-IV. It met the conditions precedent for two tranches as set in the Grant Agreement and it has fulfilled what USAID/SENEGAL considers to be the key special covenants: (a) the GOS initiated progressive privatization of the rice import system; and (b) it started the process of dismantling the price stabilization system by removing the peanut sector from the operations of the CPSP. A check list on the status of ESF-IV conditionality as of 1/15/87 is presented in Annex 3.

ESF-IV conditionality was focused on four policy themes:

- reorganization of the imported rice sector;
- phasing out of price equalization;
- reducing the deficits and cleaning up the credit arrears of agro-industry (in particular peanuts and cotton); and
- under the heading of agricultural inputs, guaranteeing that no new state credit program for fertilizer sales would be established for the three-year period from initiation of ESF-IV.

a. Reorganization of the Imported Rice Sector

The Caisse de Péréquation et de Stabilisation des Prix (CPSP) is up-to-date on payment of CFAF 10.0 billion in arrears on customs duties owed to the GOS Treasury and on collection of CFAF 0.4 billion of arrears on repayments by distributors of credits on earlier rice sales, as called for by ESF-IV Special Covenant 4.2.B.4.

A plan for the progressive privatization of the rice importing and distribution system called for in ESF-IV conditionality and in the World Bank's SAC-II was negotiated by the GOS and the World Bank in the spring of 1986. The relevant section of ESF-IV Special Covenant 4.2.B states: "The Grantee agrees: (1) To announce by February 1986 that Senegal will progressively privatize rice import operations and internal distribution beginning in July 1986 through the elimination of a quota system."

The current plan for privatization of rice imports, announced on September 4, 1986, is unambiguous with respect to internal distribution: The quota system has been eliminated and any licensed trader is eligible to buy rice from the importer(s) for wholesale and retail distribution within Senegal. The plan for progressively turning over importation of rice to the private sector is as follows. For the period December 1, 1986 - November 30, 1987, the private sector is to be responsible for 25 percent of rice imports, as reconfirmed on January 19, 1987 with the announcement that the private sector would begin importing the first 25,000 MT of its 85,000 MT allotment in March 1987. The private sector's rice will pass through the CPSP which will impose a perequation tax based on the average price of the CPSP's rice imports (75 percent of the total). For the period December 1, 1987 - November 30, 1988, the private sector will import the entire quantity of rice needed, except for CPSP imports for managing the security stock of 60,000 MT.

One of ESF-IV's special covenants (section 4.2.B.5 of the Grant Agreement) calls for regional retail sales prices of rice (to be considered as maximum prices and not as fixed prices) that will reflect adequate margins and the full cost of transport. The specification of "adequate margins" was intended to ensure that private sector traders would not be squeezed. The specification of "full cost of transport" follows from USAID's position that prices ought to reflect geographical differences in transport costs for rational economic decision-making. In the event, the GOS did not act according to special covenant 4.2.B.5.

The GOS's philosophy concerning regional pricing is that equity requires that access to basic consumer goods (such as rice) or basic inputs to agriculture (such as fertilizer) should be available at close to the same price throughout the country. In the case of rice, prices are not uniform throughout the country but the differences are much smaller than would be warranted by differences in transport costs. For example, the present CFAF 9/kg spread between the official consumer price in Dakar (CFAF 160/kg) and the official consumer price in Bakel (CFAF 169/kg) is considerably less than the actual transport cost (around CFAF 22/kg). The CPSP absorbs the bulk of the transport cost. In fact, however, the price difference in that particular

case is partly irrelevant since Bafé is a rice-growing area which exports rice on an artisanal basis to Mauritania and occasionally to nearby areas in Mali.

It can be argued that absorption of transport costs on rice by the CPSP to the Sine Saloum area of the Peanut Basin reduces the competitiveness of local production of millet. In fact, in this area also the direct relation between the official price of rice and the price of millet is partly irrelevant since the real competition is with rice smuggled in from The Gambia and sold at prices well below the official Senegalese consumer price of rice.

There are, of course, fluctuations above the official price of rice in any particular market place depending on the level of supply immediately available. In Dakar itself, CFAF 160/kg standard broken rice sells at CFAF 170 to CFAF 175 if supplies are tight. Fluctuations in the interior are likely to be wider.

b. Phasing Out of Price Equalization

Progressive dismantling of the price equalization system is technically in process: the operations of the peanut sector have been removed from the CPSP; and a plan has been established for eliminating the role of the CPSP in rice imports by December 1, 1988. However, the underlying short-run problems still remain: how to replace the rice price péréquation by a tax when the consumer price of rice in Senegal is fixed at twice what is now the world price; and how to deal with the problem of the deficit of the peanut sector resulting from maintaining a domestic procurement price for peanuts 50 percent above the world price. No plan has yet been formulated for eliminating the other functions of the CPSP.

ESF-IV Special Covenant 4.2.C has five elements: "...(1) to establish before December 1986 a plan for phasing-out before October 1987 fixed producer prices of export crops in favor of a flexible floor price mechanism; (2) to complete before December 1986 a study on the feasibility of replacing price equalization by a fiscal instrument (e.g. export taxes, tax rebates, internal taxes); (3) to covenant to perform or cause to perform before December 1986 a detailed review of the production costs of agro-industry being subsidized by the CPSP with a view to establishing by March 1987 a timetable, including all sectors covered by the CPSP, for reducing the CPSP's price supports; (4) to replace, by July 1986, price equalization on imported rice with a special tax that will be readjusted periodically; and (5) to enforce timely payment, at least through CY 1986, by oil crushing firms of all customs duties and taxes on imported vegetable oil and on exported groundnut oil."

Only the last of these is on track. No work has been done on designing a plan for replacing fixed producer prices of export crops with a flexible floor price mechanism, or on replacing price equalization by a fiscal instrument. Nor, is a mechanism yet under design for replacing price equalization on imported rice by a special tax, whose introduction is now postponed until December 1988 under the arrangement worked out earlier this year between the GOS and the World Bank when it became evident that immediate privatization of rice imports (as distinct from liberalization of the system for domestic

distribution of imported rice) raised insurmountable short-run difficulties. Beyond December 1, 1988, the perequation is to be replaced by a fiscal instrument whose mechanism and basis have still to be defined. The instrument will be a tax when world prices are below the fixed domestic consumer price and a subsidy when world prices are above the fixed domestic consumer price. (Under the conditionality of the World Bank's SAC-II, the domestic consumer price of rice must incorporate protection of at least 25 percent compared with the floor price for domestic production of millet, sorghum, and maize.) As will be discussed in Section IV below, our concern is now more focused on what will happen if and when the positive perequation is eliminated by a rise in the world price of rice than on getting the CPSP out of its importing role for the time being.

Our current interest in the third element of Special Covenant 4.2.C is reducing the drain on the CPSP (and therefore on the GOS Treasury) due to losses incurred by the sugar sector. As of 10/31/86, the French-owned Compagnie Sucrière Sénégalaise (CSS) had accumulated an accounting deficit of CFAF 8.7 billion, which is supposed to be reimbursed by the CPSP. By the end of 1986/87 (June 30, 1987), the accumulated deficit will be in the neighborhood of CFAF 14-15 billion). The current Ministry of Finance position is that it recognizes its responsibility for paying the CPSP's arrears but is in no position to reimburse more than CFAF 2 billion this year. The position the Ministry of Finance would like to take is that it will not contemplate settling its accumulated arrears toward the CSS until the CSS comes up with a plan for eliminating the negative perequation within a definite time frame (1-2 years). However, the GOS has taken no specific action on performing or contracting out a study on production costs. In the meanwhile, the French Caisse Centrale has recently completed a study of the CSS operation at Richard Toll. The study claims that the CSS could be restructured (with some new investment by the French owners, interested donors, and the SOFISEDIT) to produce sugar at a cost that would not require a subsidy.

c. Agro-Industry

ESF-IV Condition Precedent 2.2.2 called for elimination of price equalization on exported peanut products and on domestically-consumed vegetable oil, in other words removal of the peanut sector from the CPSP. The operations of the peanut sector have indeed been removed from the functions of the CPSP, leaving the oil-pressing firm SONACOS as the entity incurring the deficit on exports of peanuts and peanut products. In 1984/85, when the oil-pressing firms were not getting their normal share of the peanut crop because of several anomalies in the structure of fixed prices, peanut procurement prices were raised sharply, in part to encourage sales by farmers into official channels. The domestic producer price of peanuts was raised to CFAF 90/kg in 1985 from a net of CFAF 60 (CFAF less a retention of CFAF 20/kg to cover peanut seed supplied on credit). Unfortunately, the world price dropped by over 50 percent in 1985/86. The record of domestic procurement price compared with the CFAF equivalent of the world price for peanuts, adjusted for fluctuations in the US dollar, is as follows (in CFAF/kg):

	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Procurement price (net) in Senegal	50	60	90
World price (CFAF equivalent)	133	153	75

With processing costs added, the effect was to turn the peanut sector's surplus on exports of CFAF 9.1 billion in 1984/85 into a deficit of CFAF 10.5 billion in 1985/86 (see Annex 1, Table 10).

ESF-IV Special Covenant 4.2.D states: "The Grantee shall confirm: (1) that there will be no more direct Grantee subsidy to oil crushing firms (with the possible exception of the seeds sector) after the end of 1985; (2) that crop credit, due on the seed stock for the 1984/85 crop year, will be fully reimbursed by the end of June 1986".

This year, there will indeed be no direct GOS subsidy to cover the deficit on exports of peanut products; the deficit will be met by SONACOS out of past positive perequations owed to it by the CPSP and out of SONACOS profits on domestic marketing of imported vegetable oil. However, with domestic procurement prices plus processing costs 50 percent above the world price, SONACOS will not be able to continue covering the deficit on peanut product exports. The President of Senegal has several times announced that the CFAF 90/kg price will be maintained through the 1986/87 agricultural campaign. The following year, being an election year, is not likely to see a reduction in the domestic peanut procurement price. Unless world prices recover, Senegal's peanut sector will continue to run a heavy deficit. Since it is in no position to cover the deficit, the GOS has now established a Peanut Guaranty Fund, to be financed by SONACOS'S profit on the import of vegetable oil and by a contribution from the donors. In the short run, the GOS hopes to tap the EEC/Lomé Convention export stabilization fund, STABEX, as a donor source.

2. PL 480 Title I

FY 1986 PL 480 Title I provided 49.5 million of rice to Senegal. Local currency proceeds are being used (a) for support of the fertilizer subsidy program (in conjunction with funding from the EEC food aid Common Fund), (b) for support of the cereals floor price, (c) for partial funding of in-country transport of Title II grant food aid, and (d) accelerated retirement of the ONCAD debt. Self-help measures focused primarily on deregulation and liberalization of cereals marketing and establishment of the floor price system for cereals.

For FY 1987, we are proposing a \$10.0 million rice import program under Title I. Proposed FY 1987 PL 480 Title I self help measures are described in section V.B.5 below (and in Annex 4).

3. Agricultural Production Support Project

USAID/Senegal's Agricultural Production Support (APS) project (685-0269) is our newest direct project intervention in support of the GOS Cereals Plan. The main objective of the 5-year APS project is to facilitate privatization of

distribution of agricultural inputs and multiplication of cereals seeds in Senegal. This will be supported by (a) technical assistance, training and commodity procurement for a seed multiplication program, (b) establishment of a revolving fund to expand input supplier credit through the commercial banks, (c) an educative media campaign, and (d) upgrading of agricultural statistics.

Conditionality attached to the APS project is described in section V.B.5 below (and in Annex 4).

V. ESF-V Program Description

A. ESF-V Objectives

The basic thrust of our ESF-V conditionality is unchanged from ESF-IV. The Mission's central structural adjustment objectives are two-fold: (a) primarily to support the main thrust of the current USAID policy dialogue in Senegal, namely cereals policy as part of agricultural reform; and (b) secondarily to help reduce or eliminate the financial drain on the GOS Treasury arising from price subsidies on production of agricultural commodities other than cereals. The major policy themes of ESF-IV are retained, but our emphasis reflects the progress made under ESF-IV and the implementation requirements for the coming year. For this reason we are redefining our policy themes slightly, as follows:

- improving policy reform management
- damping imported rice consumption;
- reducing agricultural sector deficits;
- encouraging private sector agro-industry.

1. Improving Policy Reform Management

We propose, as a condition precedent to release of the first tranche of ESF-V, setting up a formal procedure for holding quarterly meetings with the GOS to discuss progress on (a) relevant aspects of the entire economic policy package supported by ESF-V and PL 480 Title I, and (b) specifically on the status of studies that we consider essential for further policy change. These studies will deal inter alia with the future of rice imports, with pricing of domestic cereals, with production costs of the sugar company, and with other aspects of structural adjustment. We propose making progress on these studies and resulting action plans part of our ESF-V conditionality. We also propose to earmark \$500,000 of the grant for contracting out such studies as necessary.

Our formal GOS counterpart in these quarterly meetings will be an interministerial working group consisting of high level officials of the Ministry of Economy and Finance, the Ministry of Planning and Cooperation, and the Ministry of Rural Development. Once the system is in place, the quarterly meetings also can be used to broaden the range of policy discussion beyond its initial focus on cereals policy and related agricultural policy issues, to encompass other aspects of the GOS/World Bank/IMF PFP (Policy Framework Paper) and new issues as they arise.

2. Dampening Imported Rice Consumption

In the context of cereals policy, our concern with rice imports this coming year is primarily to divert consumer demand from imported rice to domestic grains (millet, sorghum, maize, and cowpeas). Maintaining the internal price for rice at its present high level by Government fiat clearly serves that purpose. We consider the removal of restrictions on internal distribution of imported rice through the elimination of the system of allocations to politically favored traders under the old quota system to be of greater internal political and economic importance than changing the pattern of the import trade itself. Eliminating the quota system introduced a healthy measure of needed competition into the workings of the private sector in Senegal and reduced the scope for corruption. We therefore feel less urgency about getting the private sector into the international rice import market than we did a year ago since the current system meets, in an administratively painless manner, both of our central objectives: dampening demand for imported rice to protect the market for locally-produced grains; and reducing the GOS fiscal deficit.

It should be kept clearly in mind that the mechanism we are all recommending to protect local production of grains is a system of administered prices: a floor support price on farm-level procurement; and an administered consumer price for rice intended to discourage rice imports and to provide a ceiling price for domestic grain procurement. If the margin on rice imports due to the administered domestic price were to go as a windfall to private sector traders, the traders would start shaving the domestic price (as the smugglers do now) and rice imports would increase. This is one rationale for a tax, whether collected through the CPSP or some other way; another is, of course, the fiscal requirements of the GOS.

In this context, we feel no real urgency in getting the CPSP out of rice imports, as long as world prices are well below the administered internal consumer price, in view of the likely administrative complications of an alternative tax mechanism. For example, we can suggest one way of dealing with the problem of capturing the current windfall, which would be to base the tax on an announced projected world price for imported rice over the next import period (e.g. 6 months), at a rate that would leave a reasonable margin for the private sector importer. If the importer gets a better price than the GOS projection, he keeps the difference. If the actual average world price rises above the projection, the GOS rebates an appropriate part of the tax. Keeping the CPSP in the rice importing business may be a simpler mechanism.

A thornier question is what to do when the world price of rice comes back up to the level of the present internal Senegalese price, which was set after much painful political decision-making, in order to reduce the subsidy on rice. Our recommendation would be to let the consumer price rise with the world price once the latter goes beyond the level where it provides 25 percent protection to Senegal's domestic floor price for cereals, and not to re-institute a consumer subsidy.

For the time being, therefore, we are content with the steps taken so far on rice stabilization and we will be happy to let the World Bank get out in front to negotiate an alternative to the CPSP for keeping the windfall profit from the administered internal price of rice flowing into the GOS Treasury.

3. Reducing Agricultural Sector Deficits

ESF-IV was concerned with phasing out price equalization primarily to reduce the deficits on commodity sectors that require subsidies from the GOS Treasury. However, it is clear from the experience of 1985/86 that transferring a sector such as peanuts out of the CPSP does not by itself solve the underlying problem of reducing or eliminating subsidies. Where the perequation is positive (the equivalent of a tax), the CPSP is now a convenient mechanism for channeling the surplus into the GOS Treasury, since ministerial control of the CPSP has been shifted from the Ministry of Commerce to the Ministry of Finance. For the time being, therefore, we prefer to soft-pedal our earlier insistence on dismantling the CPSP and to focus on sector studies needed to understand and to identify options for reducing the deficits.

Removing the peanut sector from the functions of the CPSP has served the useful function of introducing some transparency into the operations of Senegal's most important, and currently its major loss-generating, export activity. But transparency serves only to increase visibility of the problem of overpricing farm gate procurement of peanuts in the face of low world prices for peanut products; it does not provide a solution. The GOS is attempting to postpone the hard decision to lower the peanut procurement price until after the 1988 elections by floating its new peanut guaranty fund, in the hope that the world price will recover in the meanwhile. Reducing the procurement price is another issue on which we are reluctant to push the GOS hard at this stage, because of the internal political importance of peanuts. For this round we intend to show our continued interest in the question in our policy discussions with the GOS and by including a study of cross-elasticities of price of peanuts and cereals in our ESF-V conditionality.

4. Encouraging Private Sector Agro-Industry

Among the obstacles to the development of private sector processing of agricultural outputs are the continuing shortage of bank credit and, related to it, the limitations on the flexibility of interest rates because of BCEAO regulations that relate to the whole of the West African Monetary Union rather than only to Senegal. We propose including in ESF-V conditionality a study on the banking system that will clarify policy options open to Senegal.

B. Proposed ESF-V Conditionality

In line with the discussion of objectives in Section II, we propose the following elements of conditionality for the ESF-V Structural Adjustment Grant. The policy themes are as above: improving policy reform management; dampening imported rice consumption; reducing agricultural sector deficits; and encouraging private sector agro-industry.

1. Standard Conditions Precedent to Release of First Tranche

The GOS will furnish to A.I.D., in form and substance acceptable to A.I.D., the standard documentation dealing with the required GOS legal opinion, specimen signature, bank account number, and identification of authorized GOS representatives.

2. Other Conditions Precedent to Release of First Tranche

a. Improving Policy Reform Management

The GOS will provide confirmation that a procedure is in place for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss progress on (1) agricultural reform and other aspects of structural adjustment and (2) the status of analysis and decisions related to structural adjustment measures proposed or being implemented.

b. Dampening Imported Rice Consumption

The GOS will provide the terms of reference for a study of measures to reduce rice imports. Such a study will examine, inter alia, (a) options for setting the domestic price of rice, if and when the world price recovers to a level beyond that reflecting a 25 percent protection for locally-produced grains (millet, sorghum, maize, cowpeas), (b) measures for reducing domestic consumption of rice as called for in the GOS cereals plan, and (c) a fiscal instrument for replacing the perequation on imported rice.

c. Reducing Agricultural Sector Deficits

(1) The GOS will confirm that SONACOS is actively attempting to collect from farmers the peanut seed credit issued during crop year 1986/87 and will provide a status report on repayments to date. In the event of non-payment by the farmers, SONACOS will absorb the loss.

(2) The GOS will agree to undertake a study on producer price relationships between cereals and peanuts. Such a study will also examine price differentials between Senegal and The Gambia.

(3) The GOS will confirm that an audit of SONACOS has been initiated.

(4) The GOS will agree to undertake an audit of the CSS.

d. Encouraging Private Sector Agro-Industry

The GOS will provide the terms of reference of a study on the constraints limiting the effectiveness of the banking system to support small and medium scale enterprises.

3. Conditions Precedent to Release of Second Tranche

a. Improving Policy Reform Management

USAID will determine that the procedure for holding quarterly meetings between USAID and the GOS on progress on structural adjustment is functioning satisfactorily.

b. Damping Imported Rice Consumption

The GOS will provide a draft acceptable to USAID of the study on measures to reduce rice imports and a timetable for establishing a plan of action for achieving that end.

c. Reducing Agricultural Sector Deficits

(1) The GOS will provide evidence that the crop year 1986/87 peanut seed credit has either been repaid by the farmers or absorbed by SONACOS.

(2) The GOS will provide a substantive progress report satisfactory to USAID on the study on producer price relationships between cereals and peanuts.

(3) The GOS will provide a substantive progress report on the SONACOS audit.

(4) The GOS will provide a substantive progress report on the CSS audit.

d. Encouraging Private Sector Agro-Industry

The GOS will provide a summary satisfactory to USAID of the interim results of the study of constraints on the banking system for channeling credit to small and medium scale enterprises, and will confirm its intentions to remove such constraints.

4. Special Covenants

a. Damping Imported Rice Consumption

The GOS will adhere to the current timetable for privatization of rice imports, namely that the private sector will be responsible for 25 percent of rice imports for the period December 1, 1986 - November 30, 1987, and for the entire quantity of commercial imports for the period December 1, 1987 - November 30, 1988, except for CPSP imports for managing the security stock of 60,000 MT.

b. Reducing Agricultural Sector Deficits

Based on the sugar production study and the CSS audit, the GOS will implement its plan for reform of the sugar sector.

5. Relation to Other Mission Conditionality

As stated earlier, the main thrust of Mission policy is to support agricultural reform and the new cereals policy, using as instruments both program and project aid. It is in this context that we have a menu of complementary conditionalities attached to our ESF structural adjustment grants, PL 480 Title I loans (self-help measures), and the new Agricultural Production Support (APS) project grant (see Annex 4).

Proposed FY 87 PL 480 Title I self help measures deal with: reissue of the previous year's announcements of deregulation of cereals marketing; reinforcement of the floor price mechanism for cereals; clarification of fertilizer policy; clarification of food assessment methodology; and an increase in GOS budget support for transport costs of Title II food grant aid.

APS conditionality deals with a range of factors. Conditions relating to cereals seeds emphasize: (a) elimination of subsidies to governmental organizations distributing seeds; and (b) eventual transfer of seed multiplication to the private sector. Conditions relating to credit include: (a) exemption from Central Bank (BCEAO) credit quotas of the credit facility to be established under the project; (b) agreement that no new credit program will be established by any GOS organization and that existing GOS credit programs will be amended to reflect the real costs of operating such programs; and (c) agreement to undertake negotiations with the BCEAO and the West African Monetary Union to provide broader discretion to Senegal in setting lending interest rates. Other conditions include: (a) establishment and implementation of a monitoring plan; (b) continued disengagement of the rural development agencies (RDAs) from distribution and marketing of agricultural inputs; (c) agreement to refrain from fixing nation-wide prices for input supplies; and (d) agreement to encourage greater participation of cooperatives in distribution and marketing of agricultural inputs, but not as monopolies to exclude the private sector.

C. Implementation and Management Procedure

1. Financial Mechanisms

The ESF-V structural adjustment grant provides \$11,075,000 for budgetary support in two tranches and \$500,000 for technical assistance and studies related to the purpose of the grant.

Following PAAD approval and signature of the Grant Agreement, and in anticipation of the fulfilment of conditions precedent, a Program Assistance Agreement Abstract will be prepared by the Africa Bureau and forwarded to FM/PAD (the accounting station) for entry into the Agency's records. This Abstract will serve as the obligating document until confirmed copies of the Agreement are received by FM/PAFD. The Mission will prepare a Financing Request for a Cash Transfer signed by both the Mission Director and a representative of the Ministry of Finance. FM/PAFD will schedule the payments through the Federal Reserve Electronic Funds Transfer System to a separate Central Bank (BCEAO) account in the Chase-Manhattan Bank in New York or such other account as designated by the GOS.

Once the deposits of the cash transfer are made the BCEAO will immediately create sums equivalent to each tranche of the transferred \$11,075,000 in CFAF in a Special Account ("depot du trésor auprès de la BCEAO/Senegal") at the Central Bank in Dakar, and will inform USAID/Senegal of the transaction. A written letter from the Director of USAID/Senegal to the Treasurer and the Central Bank will constitute Mission concurrence in the use of the CFAF funds and permit their release from this Special Account.

The \$500,000 will be retained by USAID/Senegal to finance direct contract study and technical assistance services. The funds will be available immediately following obligation and their use will be discussed with the GOS prior to subobligation. It is anticipated that the final disbursement date for use of these funds will be two years following the obligation date.

2. Local Currency Uses

Senegal has employed local currency budget support provided by A.I.D. in the period 1983 - 1986 primarily to meet its performance criteria under the IMF Standby Agreement. These are inscribed in the Ministry of Finance's financial operations table (TOF). The GOS and USAID jointly select from the TOF specific line items to be financed by local currency. The principal criteria for selection are that the local currency must both reduce Senegal's arrears and contribute to productivity and job creation. FY 1986 ESF funds were used, for example, to reduce GOS debt to the Senegalese private sector. These repayments also provided needed capital injections to companies, enabling them to continue or expand their business activity. USAID/Senegal expects to apply this same formula to determine use of part of the \$11,075,000 equivalent in local currency to be available under ESF-V. In this way, ESF-V funds will help meet GOS budget shortfalls and improve financial liquidities available to the private sector. We therefore propose earmarking the first tranche for payment by the GOS of arrears to the private sector.

We propose using the second tranche as a contribution to retirement of the ONCAD debt to the banking system. Our specific reason for the latter is that it has become increasingly evident from discussions over the last year on the credit component of both the Agricultural Production Support project and of the Community and Enterprise Development project that some significant changes in banking regulations need to be negotiated with the Central Bank of the West African Monetary Union (BCEAO), in particular greater flexibility for raising interest rates. The continued weight of the ONCAD debt on the Senegalese banking system puts Senegal at a disadvantage in any such negotiations. Accelerating retirement of the ONCAD debt will strengthen Senegal's negotiating position (and our own) in this area and is a necessary step toward rehabilitation of the Senegalese banking system.

3. Audit Considerations

The special provisions of the Continuing Resolution for FY 1987 are met through the establishment of a Special Account at the BCEAO into which the total counterpart will be deposited. The uses of the local currencies will be

as outlined above. Funds may be released only upon the written concurrence of the Director, USAID/Senegal. Other clauses in the Program Grant Agreement will require the Grantee: (1) to maintain books and records in accordance with generally accepted accounting principles; (2) to maintain the records for three years after the last dollar disbursement; (3) to provide audit rights to AID; (4) to submit quarterly reports; and (5) to refund to the Special Account any funds not used for agreed upon purposes. A negative covenant concerning the use of funds for military or paramilitary purposes will be included in the agreement.

The Central Bank will provide its guarantee that ESF-V funds will be utilized only upon mutual agreement between AID and the GOS as to their use. Following release of first tranche funds from the Special Account, USAID will receive from the Ministry of Finance a detailed list of private sector firms receiving payments of arrears to the equivalent of that first tranche of the cash transfer. Following release of the second tranche, USAID will receive confirmation (a) from the BCEAO that transfer has been made from the Ministry of Finance's account for repayment of ONCAD debt and (b) from the receiving banks that the transfer has been effected.

Such books and records as are related to this activity will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years.

4. <u>Implementation Schedule</u>	<u>Timing</u>	<u>Action</u>
1. USAID/Senegal authorizes PAAD.	Apr 87	PRM
2. Letter sent to Central Bank asking them to block account pending USAID/DIR letter authorizing release of funds.	Apr 87	PRM
3. Grant Program Assistance Agreement (GPAA) finalized in French and English.	Apr 87	PRM
4. GPAA signed by USG and GOS.	Apr 87	PRM
5. Financing request prepared (PRM) and signed by GOS.	Apr 87	PRM
6. All CP's are satisfied for first tranche disbursement and confirmed in a Program Implementation Letter (PIL).	June 87	PRM
7. Financing request countersigned by USAID/DIR.	June 87	PRM
8. Telephone AFR/PD/SWAP to advise that all documents are signed.	June 87	PRM
9. Financing request cabled to AID/W.	June 87	PRM
10. Funds transferred from U.S. Treasury to BCEAO Account at Chase Manhattan.	June 87	AID/W(FM)
11. Telephone confirmation of transfer (AID/W and BCEAO).	June 87	PRM
12. Mission Director authorizes Central Bank by copy of a Program Implementation Letter (PIL) to the Ministry of Finance to release funds from blocked account.	June 87	PRM

<u>Implementation Schedule</u> (cont'd)	<u>Timing</u>	<u>Action</u>
13. USAID receives confirmation from Ministry of Finance that funds were allocated as agreed.	June 87	PRM
Steps 5 through 13 will be repeated for the second tranche.		
14. Limited Scope Grant Agreement (LSGA) finalized in French and English.	Apr 87	PRM
15. LSGA signed by USG and GOS.	Apr 87	PRM
16. Technical assistance negotiated by USAID	Apr 87	PRM

5. Mission Management

The direction and implementation of this program are the responsibility of the Program Office and its Economic Analysis Unit.

6. Waivers

It is conceivable that the needed expertise, experience and relevant French language facility may not be available in the U.S. If needed, the Mission will seek a nationality waiver for supply of services.

D. Technical Assistance and Studies

The studies identified in section IV.B above as part of our conditionality for ESF-V are the following:

- (1) Identification of measures to reduce rice imports.
- (2) Analyses of producer price relationships between cereals and peanuts, and of Senegambia price differentials.
- (3) Identification and analysis of constraints limiting the effectiveness of the banking system to support small and medium scale enterprises.
- (4) Audits of SONACOS and CSS.

We expect to be called upon to contribute to the financing of consultants to help carry out some or all of these and related studies. The \$500,000 earmarked for the purpose out of the ESF-V grant will be the source for such financing.

We expect to have the terms of reference for studies (1) through (4) established by end-March 1987 and to select contractors (within Senegal, if possible) by end-April 1987. We would hope to have substantive drafts of the studies in hand before end-September 1987.

The World Bank intends commissioning two related studies: (1) a still undefined study to determine future producer prices of cereals (referred to in the GOS/World Bank/IMF PFP and in the November 1986 IMF stand-by agreement);

and (2) a banking sector study whose aim is to propose ways of rehabilitating and restructuring the Senegalese banking system to make it a more effective instrument for structural adjustment and economic growth, other than cleaning up GOS arrears and retiring the ONCAD debt. We will coordinate our proposed agricultural cross price elasticity study and our proposed banking study with the related studies undertaken with World Bank funding.

The following is an indicative budget for the studies and technical assistance component of our ESF-V program:

<u>Code</u>	<u>Title</u>	<u>\$ '000</u>
01	Studies related to rice imports	100
02	Analysis of producer price relationships between cereals and peanuts, and of Senegambia price differences	100
03	Banking study	100
04	Audits	100
05	Other studies and technical assistance	<u>100</u>
Total		500

VI. Special U.S. Interests

Senegal is a nonaligned, moderate, functioning democracy now in its twenty-seventh year of independence. Following the peaceful transfer of power when founding President Leopold Senghor resigned at the end of 1980 and was succeeded by his Prime Minister, Abdou Diouf, general elections in 1983 returned Diouf to the Presidency for a full five-year term and gave his Socialist Party (PS) an overwhelming majority of 111 seats in the 120-member parliament. Despite the predominance of the PS, there are fifteen other legally recognized parties which are free to hold meetings, advocate their platforms, and generally participate in the political life of the country, an almost unique record in Africa.

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

Senegal maintains its position as a positive force for moderation and reason on the international scene. President Diouf's tenure as Chairman of the Organization of African Unity saw that regional body infused with a new dynamism and a new willingness to confront the continent's difficult economic and development problems. Within the Non-Aligned Movement and in UN fora, Senegal is playing a role towards encouraging moderate policies and moderate

leadership. Senegal has in the past provided troops for various peacekeeping operations, including Shaba II, UNIFIL, and Chad.

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

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

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

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

Drafted by: PRM:HLubell:mc:3/30/87



Clearances:

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FFPO:ABraunstein
RLA:EDragon
RCON:GZegarac
ADO:WNilsestuen
EXO:SWallace
POL:SWagenseil
AMB:LWalker
DCM:JWard

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ANNEXES

	<u>Page</u>
1. Statistical Tables	29
2. Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1986/87 - 1988/89 (from "Senegal: Policy Framework Paper, 1987-89", dated September 19, 1986)	43
3. Status of ESF-IV (FY 85) Conditionality as of 11/30/86 (685-0288/685-K-604)	47
4. Agricultural Policy Conditionality Comparison Chart: USAID Portfolio and Related Elements of GOS/World Bank/IUMF Policy Framework Paper	53
5. Initial Environmental Examination	54
6. Statutory Checklist	55
7. GOS Request for Assistance	73
8. Guidance Cable (STATE 070741) and reply (DAKAR 3165)	74
9. Local Currency Uses, ESF-IV and ESF-V	80
10. Action Memorandum	91

ANNEX 1
Statistical Tables

	<u>Page</u>
1. Senegal : Gross Domestic Product (Sources and Uses), 1981 - Projected 1987	29
2. Senegal: Quantity of Production of Principal Industrial Commodities, 1981 - 1986 (First Half)	30
3. Senegal: Index of Industrial Production, 1981 - 1986	31
4. Senegal : Agricultural Production, 1981/82 - 1986/87	32
5. Senegal : Balance of Payments, 1983/84 - 1986/87 (in US\$)	33
6. Senegal : Imports, 1981 - 1986 (in CFAF)	34
7. Senegal : Exports, 1981 - 1986 (in CFAF)	35
8. Government of Senegal : Financial Operations Table (TOF), 1983/84 - Projected 1986/87	37
9. Government of Senegal: Tax and Non-Tax Receipts by Category, 1979/80 - 1986/87	39
10. Senegal : Surplus or Deficit on Exports of Peanuts, 1983/84 - 1985/86	40
11. Senegal : Sugar Production and Subsidy Accruing to Compagnie Sucrière Sénégalaise (CSS), 1983 - 1986	41
12. Senegal : Donor Assistance, CY 1986 Commitments	42

Table 1. Senegal: Gross Domestic Product (Sources and Uses),
1981 - Projected 1987
(in billions of CFAF at current market prices)

<u>Sources and uses</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Estimated</u>			<u>Proj. 1987</u>
				<u>1984</u>	<u>1985</u>	<u>1986</u>	
Sources:							
Primary sectors	121.1	185.7	204.7	174.1	218.8	292.8	281.9
Secondary sectors	171.6	205.0	235.5	280.3	330.1	347.6	399.3
Mining & quarrying	12.8	10.0	13.7	16.5	20.4	20.7	21.7
Oil pressing	4.3	11.3	18.8	19.0	23.8	28.1	34.4
Electricity & water	8.2	11.1	12.8	16.2	18.8	23.1	24.9
Construction	42.8	60.0	71.2	72.3	78.1	85.1	92.8
Other industries	103.5	112.6	119.0	156.3	189.0	190.6	225.5
Tertiary sectors	254.6	316.8	349.3	396.2	434.2	488.3	557.1
Wages and salaries of government and households	122.5	136.6	150.0	164.9	168.9	178.3	182.7
Gross domestic product	669.8	844.1	939.5	1,015.5	1,152.0	1,307.0	1,421.0
Uses:							
Household consumption	550.3	660.2	729.2	758.1	925.5	986.1	1,065.9
Government consumption	150.7	169.2	186.5	206.8	213.0	224.7	231.1
Gross capital formation	102.4	124.5	148.3	151.8	161.3	183.0	192.9
Changes in inventories	7.7	5.9	3.9	9.9	-3.5	-3.6	4.5
Net exports	-141.3	-115.7	-128.4	-110.1	-144.3	-83.2	-73.4

Source: Ministry of Economy and Finance, Projections Department (Direction de la Prévision et de la Conjoncture), December 1986. These estimates are approximative at best.

Table 2. Senegal: Quantity of Production of Principal Industrial Commodities, 1981-1986 (First Half)

Commodity	Unit	1981	1982	1983	1984	1985	Jan-June 1986
Phosphates	'000MT	2075.8	1310.2	1587.6	2078.8	2377.0	1271.0
Marine salt	'000MT	140.0	160.0	170.0	170.0	143.0	135.0
Canned tuna	MT	12203.0	23879.0	28174.0	28719.0	27407.0	10355.0
Shellfish	MT	2489.0	2120.0	1303.0	1367.0	3480.0	1543.0
Processed fish	iMT	25088.0	28858.0	19632.0	12662.0	7724.0	9933.0
Condensed milk	'000MT	22.1	28.8	26.4	22.1	23.4	12.8
Natural milk	hl	11562.0	14200.0	11055.0	12836.0	8828.0	3312.0
Unrefined oil	'000MT	30.4	219.1	186.3	126.1	81.8	81.2
Refined oil	'000MT	19.9	36.1	47.2	31.6	26.3	13.7
Oilcake	'000MT	41.2	273.1	276.4	305.0	119.9	94.4
Lump sugar	'000MT	37.0	50.1	46.2	51.8	111.0	28.5
Beer	'000hl	177.6	176.1	188.8	163.5	168.0	79.0
Carbonated beverages	'000hl	329.4	287.2	257.8	238.0	266.3	149.2
Thread	MT	844.0	1075.0	1286.0	1875.0	1332.0	709.0
Dyed and bleached cloth	'000 meters	1373.0	7273.0	4676.0	1625.0	634.0	716.0
Raw cotton	'000MT	21.6	18.1	18.4	9.6	36.4	16.1
Leather shoes	'000 pairs	620.8	878.0	705.9	1311.6	613.1	592.9
Plastic shoes	'000 pairs	3071.9	3915.6	2644.4	2337.6	2384.2	1264.5
Petroleum products	'000MT	632.4	542.3	270.9	341.6	435.9	240.2
Paints and varnishes	MT	2674.0	2761.0	3124.0	2755.0	3289.0	1866.0
Flour (wheat, millet)	'000MT	88.9	80.3	88.9	86.6	66.3	44.9
Fertilizer	'000MT	74.1	47.0	63.6	63.1	63.2	24.2
Soap	'000MT	36.1	35.9	38.5	35.0	29.7	15.1
Cement	'000MT	396.0	375.4	388.2	423.6	408.2	209.3
Assembled vehicles	No.	277.0	269.0	348.0	504.0	341.0	137.0
Metal packaging	mill. units	94.9	120.4	143.6	146.4	139.5	55.7
Household articles in enameled metal	MT	2738.0	3047.0	1726.0	1269.0	1068.0	699.0
Electricity	mill. Kwh	606.1	628.9	669.2	684.6	756.0	354.0
Water	mill. m3	63.3	67.0	65.6	72.7	66.2	40.1

Source:

1981-1984 : Statistics Department, Situation Economique du Sénégal, 1984.
1985, 1986: Statistics Department, direct communication.

Table 3. Senegal: Index of Industrial Production, 1981-1986
(1976 = 100)

Industry branch	Weights (in %)	Index of Industrial Production					Prelim. 1986
		1981	1982	1983	1984	1985	
Mining	19.5	111.0	77.4	77.0	103.2	112.6	122.9
.Phosphates	16.2	110.2	69.9	78.5	106.7	114.5	124.9
Food processing other than oil pressing	30.9	116.1	121.2	122.7	124.4	130.0	128.0
Food processing	43.1	88.5	105.2	109.7	102.8	103.2	103.6
.Fish Canning and preserves	2.8	163.2	181.3	151.0	139.6	170.3	178.3
.Oil pressing	12.2	18.8	64.3	76.7	48.0	35.3	41.7
.Sugar, confectionery	13.2	140.5	140.7	138.1	154.0	166.1	194.0
Textile, clothing & leather industries	12.3	110.4	147.6	136.3	137.9	133.9	137.6
.Textiles		123.3	166.3	153.8	157.4	155.9	158.4
.Clothing and leather		54.1	66.2	60.0	72.6	38.3	47.1
Wood working industries	0.5	127.1	140.9	133.0	124.7	119.0	122.7
Paper and cardboard industries	1.8	120.6	121.0	137.5	132.0	120.1	137.4
Chemical industries	11.4	83.5	80.2	73.1	69.5	77.9	87.7
.Petroleum refining	1.6	96.3	80.1	40.9	48.8	61.3	69.0
.Fertilizer, pesticides	3.7	72.7	42.6	55.8	58.2	54.5	61.4
.Plastic and rubber products	2.8	71.8	91.8	75.0	74.3	120.1	135.2
Construction materials	3.3	94.7	91.1	109.0	112.6	94.1	102.3
Mechanical industries	4.0	61.8	74.3	95.0	98.0	78.1	84.1
.Machinery and equipment	1.9	29.4	37.6	43.3	55.5	50.7	54.6
Energy	5.1	134.6	141.4	144.3	155.3	155.0	172.1
.Electricity	2.7	132.5	138.0	146.2	149.7	165.2	188.7
.Water	2.4	137.0	145.2	142.1	157.4	143.5	153.5
Sub-total excluding oil pressing	87.8	108.2	108.3	108.4	115.4	117.6	122.8
Total including oil pressing	100.0	97.2	103.0	104.5	107.2	107.6	112.9

Source: Direction de la Statistique.

Table 4: Agricultural Production, 1981/82-1986/87
(quantities in '000 MT)

<u>Crop</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Estim.</u> <u>1985/86</u>	<u>Proj.</u> <u>1986/87</u>
Industrial peanuts:						
Production	866.6	1145.4	570.9	500.0	590.4	740.0
Sales	678.7	898.9	347.3	231.8	340.3	460.0
Deliveries in shell to oil-pressers	517.1	700.9	216.0	145.0	270.9	400.0
Producer price (CFAF/Kg)	70.0	70.0	70.0	90.0	90.0	90.0
Edible peanuts:						
Production	5.3	18.3	20.7	13.1	10.7	16.0
Sales	4.7	13.7	4.6	3.7	7.3	10.0
Producer price (CFAF/Kg)	74.5	78.8.	78.8	78.8	95.0	95.0
Cotton:						
Production harvested and marketed	41.0	47.5	30.4	47.0	38.8	25.4
Purchase price (CFAF/Kg):						
1st quality	68.0	70.0	70.0	70.0	100.0	100.0
2nd quality	62.0	62.0	62.0	62.0	90.0	90.0
3rd quality	35.0	35.0	35.0	35.0	55.0	55.0
Millet-sorghum:						
Production	986.0	585.2	332.0	471.4	950.0	555.3
Sales	31.7	-	-	1.7	7.7	8.0
Producer price (CFAF/Kg)	50.0	50.0	55.0	60.0	70.0	70.0
Paddy rice:						
Production	127.0	95.0	101.5	135.8	147.5	128.1
Producer price (CFAF/Kg)	51.5	51.5	60.0	66.0	85.0	85.0
Maize:						
Production	94.8	82.2	61.5	90.4	147.0	93.1
Sales	0.5	-	-	0.5	1.4	1.2
Producer price (CFAF/Kg)	47.0	47.0	50.0	60.0	70.0	70.0
Niebe (cowpeas):						
Production	28.7	13.2	8.9	15.7	80.0	45.8
Producer price (CFAF/Kg)	43.0	43.0	43.0	60.0	110.0	110.0
Manioc:						
Production	33.7	9.5	46.1	50.0	31.0	61.0

Source: Ministry of Finance, Projections Department citing Ministry of Rural Development, Agricultural Production Department.

Table 5. Senegal: Balance of Payments 1983/84-1986/87
(in millions of US \$)

<u>Category</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
Trade balance	-221.3	-256.6	-221.8	-167.4
Exports, f.o.b.	563.5	532.0	482.7	496.0
Imports, f.o.b.	-784.8	788.6	704.5	663.4
Invisibles, net	-14.7	-26.8	-8.8	3.4
Services, net	-141.4	-162.7	-153.9	-144.1
Credits	302.8	313.4	328.4	336.1
Debits (including interest due on public debt)	444.2	476.1	482.3	480.2
Transfers, net	126.7	135.9	145.1	147.5
Public (includes amortization due on public debt)	132.9	130.1	127.1	127.6
Private	-6.2	5.8	18.0	19.9
Current account balance	-236.0	-238.4	-230.6	-164.0
Capital account	131.5	136.6	138.9	126.8
Public capital	129.0	117.6	93.5	88.8
Drawings	209.5	201.2	183.2	201.5
Amortization	-80.5	-83.6	-89.7	-112.7
Private capital	65.5	73.1	46.4	38.0
Errors and omissions	-63.0	-54.1	-1.0	-
Overall balance	-104.5	-146.8	-91.7	-37.2
Debt rescheduling	75.6	79.5	50.8	58.8
Overall balance after debt resched.	-28.9	-67.3	-40.9	-21.6
Financing	28.9	67.3	40.9	-21.6
Arrears	-	18.5	-10.8	-7.7
Central Bank	28.9	48.8	51.7	-13.9
IMF	52.1	4.7	-7.6	-0.9
Other	-23.2	44.1	44.1	-13.0
Exchange rate:				
US\$/SDR	1.0555	0.9914	1.0975	1.1429
SDR/US\$	0.9474	1.0086	0.9111	0.0749

Source: GOS Ministry of Finance, Projections Department, December 1986.
Converted from SDRs according to rates in IMF, International Financial
Statistics.

Table 6. Senegal: Imports 1981 - 1986
(value in CFAF billions, volume in '000 MT, prices in CFAF/kg)

<u>Commodity</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Prelim. 1986</u>
Petroleum products	80.8	96.1	90.9	112.6	87.6	46.9
Crude petroleum						
Value	47.1	44.3	29.5	37.8	13.2	27.1
Volume	604.2	473.7	304.5	383.7	132.6	600.0
Price	78.0	93.5	96.9	98.5	99.8	45.2
Finished products						
Value	33.7	51.8	61.4	74.8	74.4	19.8
Volume	386.2	510.7	653.7	706.9	763.8	313.9
Price	87.3	101.4	94.0	105.8	97.4	63.1
Food products	69.1	72.2	86.6	105.5	97.4	63.1
Rice						
Value	27.0	28.1	33.8	34.2	27.3	17.6
Volume	339.8	375.6	380.0	371.9	336.5	318.1
Price	79.5	74.6	89.0	92.0	81.2	55.4
Wheat						
Value	5.5	6.8	6.5	7.1	7.1	4.2
Volume	100.5	112.3	116.5	118.5	97.6	100.0
Price	54.5	60.5	56.7	59.9	72.8	42.0
Sugar						
Value	7.0	5.1	2.7	2.0	-	-
Volume	51.7	51.8	25.6	25.2	-	-
Price	135.4	98.1	105.5	79.4	79.4	57.4
Other food products	29.6	32.2	43.5	62.2	73.4	58.8
Beverages and tobacco	4.2	4.9	5.8	6.1	7.2	8.8
Other consumption goods	36.9	50.7	54.2	48.9	54.0	57.8
Equipment goods	32.5	45.0	62.5	47.0	51.7	48.9
Intermediate goods	68.8	82.1	93.8	109.5	120.4	112.5
Subtotal:						
Special commerce, c.i.f.	292.3	350.9	393.9	429.6	428.8	355.6
Entrepots and adjustments	19.3	-46.6	-12.8	-12.2	-25.5	-21.1
Subtotal:						
General commerce, c.i.f.	311.6	304.3	381.1	417.4	403.3	334.5
Freight and insurance <u>1/</u>	37.4	36.5	45.7	50.1	48.4	40.1
General commerce, f.o.b.	274.2	267.8	335.4	367.3	354.9	294.3

Sources: Ministry of Finance, Projections Department, citing also CPSP and BCEAO/Agence.

1/ 12 percent of general commerce, c.i.f.

Table 7. Senegal: Exports, 1981-1986
(values in billions of CFAF, volumes in '000 MT, prices in CFAF/kg)

<u>Commodity</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Estim. 1986</u>
Peanut products (value)	9.1	42.1	55.5	54.5	23.7	23.6
Unrefined oil						
Value	6.2	31.1	36.3	39.3	18.4	17.5
Volume	21.6	151.5	157.9	85.5	40.0	83.1
Price	287.0	205.3	229.9	459.7	460.7	210.6
Refined oil						
Value	0.1	0.3	1.5	3.3	1.0	0.3
Volume	0.4	0.8	5.8	7.0	1.8	0.7
Price	250.0	375.0	266.6	472.8	555.0	428.6
Oilcake						
Value	1.9	10.1	13.6	7.7	4.2	5.6
Volume	31.9	194.9	214.4	94.8	72.7	125.9
Price	59.6	51.8	63.4	81.0	57.8	44.5
Peanuts						
Value	0.9	0.6	4.1	4.2	0.1	0.2
Volume	2.9	4.6	24.7	16.1	0.2	0.7
Price	310.3	130.4	166.0	261.5	500.0	285.7
Phosphates						
Value	19.9	18.3	18.7	28.6	27.3	21.0
Volume	1333.4	1102.8	1265.0	1514.0	1575.5	1508.0
Price	14.9	16.6	14.8	18.9	17.3	13.9
Fish (value)	27.9	30.2	37.3	49.5	54.0	51.1
Fresh fish						
Value	17.3	18.5	21.1	28.3	31.0	29.3
Volume	53.9	53.7	53.3	64.3	66.5	70.0
Price	320.9	344.5	395.9	440.1	466.2	418.6
Canned fish						
Value	10.6	11.7	16.2	21.2	23.0	21.8
Volume	15.2	15.4	19.6	24.3	25.0	27.0
Price	697.4	759.7	826.5	872.4	920.0	807.4
Fertilizer						
Value	2.6	2.2	4.1	6.7	-	-
Volume	130.4	138.0	173.6	173.6	-	-
Price	20.0	15.9	23.6	38.7	34.3	29.1
Industries Chimiques Sénégalaises (ICS)						
Value	-	-	-	12.2	18.4	21.0
Cotton						
Value	2.0	4.8	8.1	6.9	7.1	5.9
Volume	4.2	10.1	13.6	9.1	10.0	13.2
Price	476.2	475.3	595.6	758.2	710.0	445.4

Table 7 (cont'd). Senegal: Exports, 1981-1986
 (values in billions of CFAF, volumes in '000 MT, prices in CFAF/kg)

<u>Commodity</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Estim. 1986</u>
Salt						
Value	2.3	2.8	3.1	5.2	5.2	6.0
Volume	147.7	155.8	152.2	186.7	137.3	140.0
Price	15.6	18.0	20.4	27.9	37.9	42.6
Petroleum products						
Value	38.3	45.8	40.8	43.2	23.0	19.1
Other (value)	33.8	33.8	39.4	37.3	39.8	44.0
Special commerce, f.o.b.	135.9	180.0	207.0	244.1	198.5	191.6
Entrepot trade & adjust.	3.1	-15.1	14.4	24.0	17.5	20.9
General commerce, f.o.b.	139.0	164.9	221.4	268.1	216.0	212.5

Source: Ministry of Finance, Projections Department, December 1986.

Table 8. Government of Senegal Financial Operations Table (TOF),
1983/84 - 1986/87
(in billions of CFAF)

<u>Funding category</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>Program 1986/87^{d/}</u>
1. Total revenues and grants	201.6	216.1	237.9	267.7
Revenues	189.4	203.9	218.7	252.7
Tax revenue	(177.4)	(190.1)	(185.1)	(196.5)
Non-tax revenue	(12.0)	(13.8)	(33.6)	(56.2)
Grants	12.2	12.2	19.2	15.0
Capital	(6.0)	(5.0)	(8.0)	(9.0)
Other	(6.2)	(7.2)	(11.2)	(6.0)
2. Current expenditure	205.3	217.1	220.3	226.4
Wages and salaries	100.4	106.6	111.8	114.0
Interest due on public debt	36.9	44.4	41.0	41.4
External	(36.4)	(43.8)	(40.3)	(40.4)
Internal	(0.5)	(0.6)	(0.7)	(1.0)
Other current expenditure including transfers	68.0	66.1	67.5	71.0
3. Treasury special accounts other than Caisse Autonome d'Amortissement (net)	-6.9	-4.1	-12.9	-15.3
4. Treasury correspondents (net)	6.2	1.7	1.0	3.3
CPSP	-	-	-	6.3
Other	6.2	1.7	1.0	-3.0
5. Balance on current operations (1-2+3+4)	206.0	219.5	-2.3	20.3
6. Capital expenditure	40.3	34.7	33.8	42.6
Budgetary	10.0	9.7	5.8	12.6
Extrabudgetary	30.3	25.0	28.0	30.0
7. Total expenditure and net lending (2-3-4+6)	246.3	254.2	166.0	281.0
8. Global fiscal deficit (-) (commitment basis) ^{c/}	-44.7	-38.1	-28.1	-13.3
9. Changes in payment arrears (reduction = -)	-2.0	-7.6	-9.6	-14.0
10. Reimbursement and adjustment of crop credit	-20.6	-4.0	-3.0	-15.0
11. Global deficit (cash basis) (8+9+10) ^{c/}	-67.3	-49.7	40.7	-42.3

Table 8 (cont.). Government of Senegal Financial Operations Table (TOF),
1983/84 - 1986/87
(in billions of CFAF)

Funding category	1983/84	1984/85	1985/86	Program 1986/87 ^{d/}
12. Financing requirement	67.3	49.7	40.7	42.3
External financing	36.7	38.0	28.0	50.3
Drawings	35.9	40.9	36.7	74.8
GOS Treasury ^{a/}	(11.6)	(20.9)	16.7	53.8
Other	(24.3)	(20.0)	20.0	21.0
External debt rescheduling	-28.4	-31.2	20.9	19.7
Amortization payments due	29.2	28.3	-29.6	-44.2
Domestic financing	30.6	11.7	12.7	-8.0
Banking system ^{b/}	35.2	17.9	19.6	4.0
Repayment of ONCAD debt to banks	-8.8	-10.0	-8.0	-12.0
Non-bank borrowing				
(long term domestic loans)	1.4	2.0	0.8	-
Other	2.8	1.8	0.3	-
<hr/>				
^{a/} GOS Treasury:				
Saudi Arabia	-	18.1	-	2.3
Caisse Centrale (France)	5.3	2.8	-	12.5
U.S.	-	-	1.0	3.9
World Bank	-	-	10.7	12.6
STABEX	-	-	5.0	8.8
Other	6.3	-	0.0	13.7
Total	11.6	20.9	16.7	53.8
^{b/} Banking system:				
Statutory overdraft	1.9	-0.7	8.4	1.0
Caisse Centrale (France)	5.9	7.2	8.0	-
IMF (drawings)	27.1	16.7	17.7	17.2
Structural Adjustment Facility	(-)	(-)	(0.0)	(6.7)
Other	(27.1)	(16.7)	(17.7)	(10.5)
IMF (repurchases)	-	-8.8	-16.3	-15.4
Other deposits	0.3	3.5	1.8	1.2
Total	35.2	17.9	19.6	4.0
^{c/} Relation to GDP:				
Gross domestic product (GDP)	977.4	1,101.2	1,229.5	1,362.1
Overall fiscal deficit (-)				
(commitment basis) as % of GDP	-4.6	-3.5	-2.29	-0.98
Overall deficit (cash basis)				
as % of GDP	-6.9	-4.5	-3.31	-3.10

^{d/} As of 12/17/86.

Table 9. Government of Senegal: Tax and Non-Tax Receipts by Category, 1979/80 - 1986/87
(Amounts in Billions of CFAF)

Receipts category	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	Revised 1985/86	Program 1986/87
1. Taxes on income and profits	31.3	29.8	32.4	37.0	41.0	44.3	44.0	46.7
a. Corporate profit tax and tax on professional income	11.2	10.3	8.9	9.8	10.6	13.2	12.1	13.0
b. Tax on wages and salaries	8.8	8.4	12.6	11.9	12.3	13.0	13.8	14.5
c. Tax on capital income	2.7	2.8	2.1	2.6	3.2	3.6	3.5	4.2
d. Tax on rental income	0.2	0.4	0.4	0.3	1.1	0.7	0.5	0.6
e. Tax on real estate capital gains	0.2	0.1	0.1	0.2	0.2	0.2	0.4	0.4
f. General income tax	8.2	7.8	8.3	12.2	13.6	13.6	13.7	14.0
2. Employers' payroll tax	2.1	2.1	1.6	3.8	4.3	4.5	4.7	5.0
3. Taxes on property	3.3	3.9	3.4	2.8	2.8	2.8	3.3	3.5
a. Real estate taxes	1.3	1.4	1.3	0.5	0.2	0.3	0.0	0.0
b. Registration duties	1.9	2.1	1.9	2.2	2.5	2.4	3.2	3.3
c. Mortgage duties	0.1	0.4	0.2	0.1	0.1	0.1	0.1	0.2
4. Taxes on goods and services	40.1	35.6	41.0	48.8	54.2	58.2	58.0	65.2
a. Value added and services	21.5	20.7	25.9	32.9	43.6	48.0	48.6	54.6
b. Specific tax ^{1/} on petroleum products	9.5	7.8	7.1	6.2	-	-	-	-
c. Other excises	4.5	3.9	3.7	4.2	5.1	4.3	4.1	4.1
d. Tax on insurance contracts	1.0	0.8	0.9	1.3	1.2	1.4	1.2	1.2
e. Tax on vehicles	1.1	1.2	1.1	1.2	1.2	1.6	1.6	2.1
f. Business license fees	0.1	0.1	-	-	-	-	-	-
g. Taxes on alcohol and cement	2.6	2.1	2.3	3.0	3.1	2.9	2.5	3.0
5. Taxes on foreign trade	52.6	44.6	60.6	71.2	74.2	78.0	73.7	74.4
a. Import duties	49.8	43.1	59.3	69.8	73.2	77.6	73.4	74.0
b. Export duties	2.8	1.5	1.3	1.4	1.0	0.4	0.3	0.4
6. Other taxes ^{2/}	1.6	1.6	1.1	1.2	1.6	1.7	1.4	1.7
7. Total tax revenue	131.0	117.0	140.1	164.8	178.1	189.5	185.1	196.5
8. Non-tax receipts of which:	8.4	7.3	12.2	11.2	12.2	13.8	33.6	56.2
CPSP	-	-	-	-	-	-	2.5	-
SAR	-	-	-	-	-	-	19.3	45.0
9. Total receipts	139.4	125.9	152.3	176.0	190.3	203.3	187.7	252.7

Source: Projections Department, Ministry of Finance, August 1986.

^{1/} The specific tax on petroleum products was replaced by a value-added tax in 1983/84.

^{2/} Including stamp duties.

Table 10. Surplus or Deficit on Exports of Peanut Products,
1983/84 - 1985/86

<u>Category</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
A. Unit cost and price (CFAF/kg):			
1. Procurement price:			
a. Gross	70.0	80.0	90.0
b. <u>less</u> Retention	<u>-20.0</u>	<u>-20.0</u>	<u>-</u>
c. Net	50.0	60.0	90.0
2. Processing costs	<u>24.8</u>	<u>27.5</u>	<u>23.0</u>
3. Total cost	74.8	87.5	113.0
4. World price (CFAF equivalent at current exchange rate)	<u>133.2</u>	<u>152.8</u>	<u>75.0</u>
5. Surplus (+) or deficit (-) on exports	58.4	65.3	-38.0
B. Peanut equivalent of quantity of peanut products exported ('000MT)	209.5	139.6	275.0
C. Surplus (+) or deficit (-) on peanut exports (CFAF billion) [A.5xB]	12.2	9.1	-10.5

Source: Mission estimate.

Table 11. Sugar Production and
Subsidy Accruing to Compagnie Sucrière Sénégalaise (CSS),
1983 - 1986

<u>Category</u>	<u>1983</u>	<u>Prelim. 1984</u>	<u>1985</u>	<u>1986</u>
A. Quantities (MT) (crop years)^{a/}				
Refined sugar:				
Production	74,973	79,098	73,493	63,500
Consumption (= CSS sales)	72,389	74,807	67,685	59,108
Imports (crystallized sugar) ^{b/}	3,985			2,000
Sugarcane production at Richard Toll	628,088	569,541	633,634	660,000
Imports of unrefined sugar (roux) by CSS	27,613	28,294	12,477	
B. CFAF million:				
Negative perequation (deficit) of CSS (calendar years) ^{c/}	1,548 ^{d/}	755	3,050	6,027 ^{e/}
CPSP payments to CSS (calendar years)	-	-	1,650	1,000 ^{e/}
Cumulative arrears owed to CSS at end of period	1,548	2,303	3,703	8,730 ^{e/}

a/ Crop year 1983 = 1982/83, etc.

b/ Imports by CSS. In addition, some 10-15MT are smuggled into Senegal.

c/ Approximately calendar years.

d/ Including balance of CFAF 12 billion on 12/31/82.

e/ Figure as of 10/31/86.

Source:

Production, consumption, and imports:

1983 - 1985: CSS.

1986: CPSP.

CSS perequation: CPSP.

Table 12. Senegal: Donor Assistance, CY 1986 Commitments
(in millions of US\$)

Donor	Non-project assistance			Project assistance			Total		
	Grant	Loan	Total	Grant	Loan	Total	Grant	Loan	Total
<u>Multilateral</u>	<u>7.8</u>	<u>164.0</u>	<u>171.8</u>	<u>74.4</u>	-	<u>74.4</u>	<u>82.2</u>	<u>164.0</u>	<u>246.2</u>
IMF	-	57.0	57.0	-	-	-	-	57.0	57.0
World Bank	-	70.0	70.0	54.0	-	54.0	54.0	70.0	124.0
UNDP/WFP	5.5	-	5.5	12.9	-	12.9	18.4	-	18.4
EEC	2.3	37.0	39.3	2.6	-	2.6	4.9	37.0	41.9
FAO	-	-	-	4.9	-	4.9	4.9	-	4.9
<u>Bilateral</u>	<u>147.3</u>	<u>67.1</u>	<u>214.4</u>	<u>141.0</u>	<u>145.5</u>	<u>286.5</u>	<u>288.3</u>	<u>212.6</u>	<u>500.9</u>
France	88.3	57.1	145.4	13.1	58.0	71.1	101.4	115.1	216.5
U.S.A.	30.9	9.5	40.4	20.9	-	20.9	51.8	9.5	61.3
Canada	3.7	-	3.7	17.4	-	17.4	21.1	-	21.1
United Kingdom	0.1	-	0.1	8.1	-	8.1	8.2	-	8.2
Belgium	0.1	0.5	0.6	4.3	-	4.3	4.4	0.5	4.9
Italy	1.9	-	1.9	51.7	11.9	63.6	53.6	11.9	65.5
Switzerland	8.4	-	8.4	3.5	-	3.5	11.9	-	11.9
Netherlands	11.5	-	11.5	3.8	-	3.8	15.3	-	15.3
F.R. of Germany	-	-	-	1.2	11.5	12.7	1.2	11.5	12.7
Japan	2.4	-	2.4	17.0	-	17.0	19.4	-	19.4
Arab countries ^{a/}	-	-	-	-	23.8	23.8	-	23.8	23.8
China	-	-	-	-	40.3	40.3	x	40.3	40.3
Republic of Korea	-	-	-	0.0 ^{b/}	-	0.0 ^{b/}	0.0 ^{b/}	-	0.0 ^{b/}
COMBINED TOTAL:	<u>155.1</u>	<u>231.1</u>	<u>386.2</u>	<u>215.4</u>	<u>145.5</u>	<u>360.9</u>	<u>370.5</u>	<u>376.6</u>	<u>747.1</u>

^{a/} Saudi Arabia, RADEA, OPEP, Abu Dabi

^{b/} Less than \$100,000

x Figures not available

Source: USAID/Senegal estimates from donor missions in Dakar.

ANNEX 2

Summary and Time Frame for Macroeconomic
and Structural Adjustment Policies,
1986/87 - 1988/89

(from "Senegal: Policy Framework Paper 1987-89",
dated September 19, 1986, pp. 12-14)

Table 1. Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1986/87-1988/89

	<u>Objectives and Targets</u>	<u>Strategies and Measures</u>	<u>Timing of Measures 1/</u>
1. <u>Agricultural policy reform</u>	Expand and diversify domestic production, and reduce government intervention and subsidies.	*Continue the process of reform envisaged in the new agricultural policy.	1986/87, 1987/88, and 1988/89
a. Cereals policy	Promote food security, and reduce reliance on rice imports.	*Adopt cereals plan.	July 1986
		*Complete study to determine future producer prices of cereals.	March 1987
		*Maintain remunerative producer prices for cereals, develop processed products responsive to consumer tastes, and keep a minimum nominal protection above import cost of 25 percent for domestic cereal production by adjusting, when necessary, the retail price of rice.	1986/87, 1987/88, and 1988/89
	Progressively privatize rice imports and internal distribution.	*Abolish system of prior licensing and selection of local rice distributors, and assure distributors sufficient margins to cover transportation costs.	July 1986
		*Initiate reduction in the share of the CPSP in rice imports.	December 1986
		*Following an evaluation of performance under the new import system, fully privatize rice trade, except for security stock to be managed by CPSP.	December 1987
b. Groundnut sector	Foster production and reduce government intervention.	*Maintain remunerative producer prices.	1986/87, 1987/88, and 1988/89
		*Rationalize marketing, pass financial responsibility on to the oil millers, and fully merge SONACOS with SEIA.	1986/87
c. Rural development agencies	Restructure and rehabilitate key agencies.	*Finalize and sign lettres de mission for SODAGRI, SODEVA, SODEFITEX, and SOMIVAC.	1986/87
2. <u>Industrial policy reform</u>	Rationalize the system of protection.	*Lower existing rates and harmonize tariffs in three stages so as to achieve a lower and more uniform level of effective protection, which, combined with the progressive elimination of quantitative restrictions, would also help improve revenue performance.	July 1986, July 1987, and July 1988
	Increase export incentives.	*Introduce revised export subsidy scheme based on industrial value added in international prices.	July 1986
	Apply the general fiscal and trade laws to all registered enterprises.	*Review special agreements with certain major enterprises.	1986/87
	Improve business environment, and labor mobility.	*Review and amend labor law stipulations and controls or constraints burdening enterprises, with a view to their reduction or elimination.	1986/87 and 1987/88

1/ Where a single date is indicated, it means that the measure(s) will be taken no later than that date; where one year or several years are noted, it means that action will be taken in each year.

2/ Refers to measures already incorporated in agreements with the Bank.

3. <u>Energy policy</u>	Develop local sources of supply and restrain energy consumption.	Maintain a structure of retail prices consistent with energy conservation and budgetary requirements.	1986/87, 1987/88, and 1988/89
4. <u>Investment programming</u>	Place greater emphasis on directly productive and high-priority rehabilitation activities.	* Introduce appropriate public investment program for 1986/87.	July 1986
		* Adopt appropriate three-year "rolling" public investment program.	July 1987
5. <u>Parapublic sector reform</u>	Evaluate carefully financing requirements and recurrent cost implications of projects.	* Strengthen capabilities of Planning Ministry.	1986/87, 1987/88, and 1988/89
		* Liquidation or privatization of public enterprises in competition with the private sector in the production of commercial goods and services.	1986/87, 1987/88, and 1988/89
	Promote the efficiency of the parapublic sector, and reduce government intervention and subsidies.	* Finalize and sign <u>contracts-plans</u> for SENELEC, OPCE, SONATEL, SICAP, OHLN, and SONACOS/SEIB.	1986/87
		* Reconcile reciprocal obligations between the Government and the enterprises; and establish a schedule for the orderly settlement of all verified arrears.	1986/87, with settlement over three years
Progressively eliminate all verified cross-arrears.	* Reduce and preferably eliminate operating subsidies to parastatals, according to an agreed plan.	1986/87, 1987/88, and 1988/89	
6. <u>Fiscal policy</u>	Achieve a turnaround in the Government's fiscal operations, on a consistent basis and including grants, from deficit to surplus.	Improve revenue performance and pursue a prudent spending policy.	1986/87, 1987/88, and 1988/89
a. Revenue	Improve revenue performance.	Implement the recommendations of the National Commission for Tax Reform and recent Fund technical assistance missions:	1986/87, 1987/88, and 1988/89
		- Reform direct tax code.	1986/87
		- Revise customs tariff in three stages.	July 1986, July 1987, and July 1988
b. Expenditure	Maintain tight limits on current government outlays.	Mobilize the prospective surpluses of the oil sector in support of the budget.	1986/87, 1987/88, and 1988/89
		* Control the wage bill by freezing or reducing the number of government employees, while developing proposals for a civil servants' resettlement fund; also keeping wage drift to a minimum.	1986/87, 1987/88, and 1988/89
		Reduce government subsidies and transfers.	1986/87, 1987/88, and 1988/89
		* Make adequate provisions for materials, supplies, and maintenance of essential services.	1986/87, 1987/88, and 1988/89

^{a/} Refers to measures already incorporated in agreements with the Bank.

c. Domestic arrears	Gradually eliminate all currently verified domestic arrears of the Government and public agencies.	Allocate adequate resources to liquidate such arrears.	1986/87, 1987/88, and 1988/89
7. <u>Credit policy</u>	Increase and improve credit to the private sector, while reducing net government borrowing from the banking system.	Strengthen the existing credit information structure	1986/87, 1987/88, and 1988/89
	Improve financial position of the banking system.	Restructure and rehabilitate three banks facing serious difficulties (BCS, BNDS, and USBCI).	1986/87 and 1987/88
	Discourage capital flight, mobilize domestic savings, and improve resource allocation.	Follow a flexible interest rate policy	1986/87, 1987/88, and 1988/89
8. <u>External debt management</u>	Limit external debt service burden to manageable proportions; and re-establish orderly relations with creditors.	* Keep new external borrowing on nonconcessional terms to a strict minimum, while intensifying efforts to mobilize resources in the form of grants.	1986/87, 1987/88, and 1988/89
		* Make adequate provisions for the prompt settlement of debt service obligations so as to avoid any external arrears.	1986/87, 1987/88, and 1988/89

^{a/} Refers to measures already incorporated in agreements with the Bank.

TABLE 3Status of ESF-V (FY 85) Conditionality
as of 1/15/87 (J85-0288/685-K-604).

A. Date Authorized: 12/27/85.
Date Agreement Signed: 12/27/85.

B. Purpose: To assist Senegal to attain and maintain economic and political stability while promoting structural reforms needed to redress the underlying problems of the economy.

C. Description: A \$12.5 million cash transfer to stimulate growth in the economy through reimbursement of arrears or other measures to increase the liquidity of the private sector and the banking sector.

D. Conditionality.

1. Conditions Precedent to First Tranche Disbursement

See PIL No. K-604-01.

a. Standard CPs (legal opinion, specimen signature, bank account number, authorized GOS representatives).

Written confirmation was provided on 12/30/85 and 12/31/85.

b. Reorganization of the imported rice sector.

i. Reimbursement of CFAF 5.0 billion by the CPSP to the GOS Treasury.

Written confirmation was provided in a letter from Minister of State Jean Collin to the American Ambassador dated 12/19/85 and a Treasury Attestation dated 12/30/85.

ii. Payment by the CPSP of a minimum of CFAF 0.5 billion to the GOS on sums due on price equalization for imported rice operations. Written confirmation was provided on 12/19/85 (Jean Collin) and 1/2/86 (Director of CPSP).

iii. Collection from the CPSP of CFAF 0.4 billion in arrears on rice credit sales made in 1983 and 1984.

Written confirmation was provided on 12/19/85 (Jean Collin) and 12/31/85 (Director of CPSP).

c. Phasing-out of price equalization

- i. Eliminate price equalization on exported peanut products and on domestically consumed vegetable oil.

Written confirmation was provided on 12/19/85 (Jean Collin).

- ii. Authorize the oil crushing firms to recommend adjustment of the domestic consumer price for cooking oil to reflect price fluctuations on international markets. These firms are, in turn, liable for taxes and duties on imported vegetable oil and for export duties on peanut oil.

Written confirmation was provided on 12/19/85 (Jean Collin).

d. Agro-industry

- i. The oil crushing firms received GOS approval to take all necessary measures to maintain profitability through appropriate reductions in excess plant capacity and personnel.

Written confirmation was provided on 12/19/85 (Jean Collin). However, SONACOS is still running a deficit, in part because of the high peanut procurement price fixed by the GOS.

- ii. Agroindustries (cotton and rice) will reimburse all outstanding crop credit for the 1985 crop year. SONACOS will reimburse crop credit and interest owed to the BCEAO on peanuts for crushing.

Written confirmation was provided on 12/31/85 (BNDS and BCEAO) and on 1/4/86 (BCEAO).

e. Agricultural inputs

- i. The GOS will provide a written statement cleared by the Ministry of Rural Development that for a 3-year period beginning with the signature of this agreement, no state credit program for fertilizer sales will be established outside of those that already exist: i.e. those of SAED, SODEFITEX, SODEVA and SOMIVAC/PIDAC for cereal seeds. The CNCAS is not included in this prohibition.

Letter from Ministry of Rural Development to the Ministry of Planning (4/12/85) was accepted by USAID as the required statement.

2. Condition Precedent to Second Tranche Disbursement

a. Agro-industry

- i. Reimbursement by SEIB of the totality of capital plus interest owed on purchases of peanuts for crushing for the 1985 crop year.

Written confirmation was provided by BCEAO on 3/2/86. See PIL No. 0288-02.

3. Special Covenants

- a. Standard covenant (exemption from taxes or fees): Satisfied.

- b. Reorganization of the imported rice sector

- i. Announcement by February 1986 that Senegal will progressively privatize rice import operations and internal distribution beginning in July 1986 through elimination of the quota system (except in the case of a rice shortage in a given region).

The quota system was abolished on 7/1/86 and replaced by "contracts negotiated directly and freely between the distributors and the CPSP." Announcement of the new import system was delayed by negotiation of important details, particularly the method of replacing the perequation tax (see 3.c.iv below). The plan, to go into effect starting 12/1/86, was published on 9/2/86.

- ii. Final reconciliation of the CPSP's accounts by April 1986 to facilitate transfer of imported rice operations from CPSP to private importers.

The CPSP's accounts were audited by Arthur Anderson. The audit report was delivered to the CPSP dated November 20, 1986.

- iii. Introduction by July 1986 of a mechanism to manage the GOS security/regulation stock and to obtain an appropriate corresponding reduction in the level of CPSP personnel.

The CPSP now has a security stock of 60,000 MT of rice in place, but there has been no reduction in the level of CPSP personnel. Earlier plans were to have another organization, SONADIS, manage the security stock. For a variety of reasons, the decision was made that the CPSP should continue to maintain the security stock.

- iv. Payment by CPSP of cumulative total of CFAF 10.0 billion in customs duties and collection of an additional CFAF 0.4 billion of arrears on earlier credit sales by July 1986, before transfer of rice import operations from CPSP to SONADIS and the private sector.

As of 6/30/86, the CPSP had paid a cumulative total of CFAF 12.8 billion in customs duties to the GOS Treasury for GOS FY 1984, 1985, and 1986.

- v. Establishment of regional retail sales prices of rice (to be considered as maximum prices and not as fixed prices) will reflect adequate margins and the full cost of transport by the beginning of July 1986.

This covenant has not been met. For distribution outside of Dakar, the CPSP has been absorbing the cost of transport since July 1, 1986. Official sales prices are not uniform throughout the country, but the differences are much smaller than the differences in transport costs.

c. Phasing-out of Price Equalization.

- i. Establishment before December 1986 of a plan for phasing out fixed producer prices of export crops in favor of a flexible floor price mechanism.

Nothing has been done on this job. Additional effort is needed in this area.

- ii. Completion before December 1986 of a feasibility study for replacing the equalization system by a fiscal instrument.

To date, nothing has been done. This is a complex process. The World Bank has been negotiating this issue with the GOS.

- iii. Carrying out a detailed review of the production costs of agroindustry subsidized by the CPSP.

The review has not been started. Agreements between the GOS and the flour mills will be revised within the first quarter of 1987. The GOS intends to negotiate new agreements with the Compagnie Sucrière Sénégalaise (CSS) before 1988. (See ESF-V second tranche condition precedent 3.c.(2).)

- iv. Replacement by July 1986 of price equalization on imported rice with a special tax on imported rice.

A special tax on imported rice is postponed, with the agreement of the IBRD, to December 1988 when the private sector will be entirely responsible for importing and marketing rice.

- v. Enforcement of timely payment, at least through December 1986, of customs duties and taxes on imported vegetable oil and on exported peanut oil by the oil crushing firms.

Taxes on imported vegetable oil were reestablished in late August 1986 but have been suspended in order to help the oil crushing firms to offset their deficit on exports of peanut products. Taxes on exported peanut oil also have been reestablished, but the oil crushing firms will not pay duties until 1987 owing to the sharp decline of the peanut oil world price.

d. Agro industry

- i. Suppression of GOS subsidies to oil crushing firms after the end of 1985.

Owing both to the decline of the peanut oil world price and the suppression of CPSP support, the oil crushing firms are expected to run a heavy deficit for the crop season 1985/86. The loss from exported peanut oil (CFAF 11.0 billion) was more than covered from the profit on imported vegetable oil (CFAF 5.6 billion) and from payment of CPSP arrears due to the oil crushing firms (6.3 CFA billion).

Some steps have already been adopted to reduce over-capacity and to improve profitability (reduction of SEIB personnel, reduction of working hours in SONACOS factories, reduction of the break-even point, improvement of other activities in the SEIB factory, etc). However, the GOS is seeking to implement a Peanut Guarantee Fund to help SONACOS cope with the effect of the GOS's maintaining domestic peanut procurement prices well above international prices for the 1986/87 crop season.

- ii. Reimbursement of 1984/85 seed stock credit by June 1986.

The credit was fully reimbursed.

- iii. Independent detailed audit of SONACOS to be completed by end-December 1986.

The audit is now scheduled to start in December 1986. Helios (Arthur Young International) won the bid.

- iv. Cost-efficient management of security peanut seed stock (1986/87 crop season).

The GOS has taken the following measures:

- The crop season opened on November 10, 1986.
- The first 21 days of the crop season were to be devoted only to the constitution of the security seed stock which has been fixed at 60,000 tons.

- The oil crushing firms will sell seed stock to the farmers for cash in May 1987.
- Farmers who keep their own seed stock in the oil crushing firm's warehouse will have to pay storage charges.

Drafted:PRM:HLubell/OSané:sd:12/11/88

2688P

Annex 4: Agricultural Policy Conditionality Comparison Chart: USAID Portfolio and Related Elements of GOS/IMF/IBRD Policy Framework Paper

ESF-V	USAID Senegal portfolio FY 1987-PL 480 Title I (proposed self-help measures)	Agricultural Production Support Project (685-0269)	GOS/IMF/IBRD Policy Framework Paper (PFP)1/
1. Improving policy reform management:	1. Deregulation of cereals marketing:	1. Elimination of subsidies to governmental organizations distributing seeds.	1. Agricultural policy reform:
-Creation of a formal quarterly forum for GOS-AID policy dialogue.	-The GOS will reissue previous year's announcements.	2. Eventual transfer of seed multiplication to the private sector.	Cereals policy
2. Dampening imported rice consumption:	2. Reinforcement of floor price mechanism:	3. Exemption from BCEAO credit quota of the credit facility established under the project.	-Complete study to determine future producer prices of cereals.
-Study of measures to reduce rice imports.	-The CSA will guarantee purchase of coarse grains at harvest time at the floor price to any seller (up to its financial limit of 25,000 MT).	4. Agreement that no new credit program will be established by any GOS organization, and that existing GOS credit programs will be amended to reflect the real costs of operating such programs.	b. Groundnut sectors
-Study to design a fiscal instrument to replace perequation.	-The CSA will establish a sufficient network of purchase points to make the floor price effective for most farmers.	5. Agreement to undertake negotiations with BCEAO and WAMU to provide broader discretion to Senegal in the setting of leading interest rates.	-Rationalize marketing, pass financial responsibility to the oil millers, and fully merge SONACOS with SEIB.
3. Reducing agricultural sector deficits:	3. Clarification of fertilizer policy:	6. Establishment and implementation of a monitoring plan.	7. Credit policy:
-Confirmation that SONACOS absorbs non-reimbursed 1986/87 crop year peanut seed credit.	-The GOS will apply fertilizer subsidy only for cash sales. Subsidy will not apply to fertilizer distributed through RDA's.	7. Continued disengagement of the RDAs from distribution and marketing of agricultural inputs.	-Follow a flexible interest rate policy.
-Study to provide plan for eliminating the subsidy on domestic sugar production	4. Clarification of food assessment methodology:	8. Agreement to refrain from fixing nation-wide prices for input supplies.	
-Study on cross price elasticities between cereals and peanuts, and on Senegambia price differentials.	-The GOS and the donors in the Common Fund will agree upon a common food assessment methodology.	9. Agreement to encourage greater participation of cooperatives in distribution and marketing of agricultural inputs, but not as monopolies to exclude the private sector.	
-Audits of SONACOS and CSS.	5. Increase in GOS budget support for transport costs of Title II grant food aid:		
4. Encouraging private sector agro-industry.	-The GOS will increase its budget support for this purpose to CFAF 140 million for 1988 and CFAF 210 million for 1989.		
-Study on constraints limiting effectiveness of the banking system to support SMEs.			

1/ Items selected from PFP, pp. 12-14 (Table 1. Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1986/87 - 1988/89). See Annex 2 above.

ANNEX 5INITIAL ENVIRONMENTAL EXAMINATION

Country: Republic of Senegal

Project Title: Senegal Economic Support Fund Structural Adjustment Grant (ESF-V)

Funding: Life of Project Funding \$11,075,000

Period of Project: FY 1987

Activity Description: The purposes of the ESF structural adjustment grant are to (1) provide budgetary support to the Government of Senegal and (2) achieve policy change related to cereals policy and to reduction of GOS subsidies to agro-industry.

Environment Action
Recommended:

Categorical Exclusion in accordance with Reg. 16, Section 216.2 (c) (1) (i): the action does not have an effect on the natural or physical environment, and Section 216.2(c)(2)(vi); Cash Transfer to a National Government; helping with the Balance of Payments.

IEE Prepared by: Joel Schlesinger, Chief Project Development Officer, USAID/Senegal

Bureau Environmental
Officer's Determination

Approved: X

Bessie L. Boyd , AFR/IR/PRO

Disapproved: _____

Date: MAR 2 - 1987

Clearances

GC/RLA: EDragon EAD 2/15/86

ANNEX 6

STATUTOR CHECK LIST

3(A)2 NONPROJECT ASSISTANCE

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

The ESF-V Program Grant appears in the FY 87 Congressional Presentation.

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

N.A.

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If

No.

so, why is assistance given? Information conclusion whether assistance will encourage regional development programs.

ESF-V will not encourage regional development programs. It is Senegal-specific.

4. FAA Sec. 601(a) 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.

Conditionality aims at increasing private sector initiative and competition.

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

No direct effect.

6. FAA Sec. 612(b), 630, and FY 1986 Continuing Resolution, Sec. 507. 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 are utilized in lieu of dollars.

N.A.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes, for studies and technical assistance.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? N.A. Funds are not provided by Sahel appropriation.
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? Yes.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.

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

No.

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

No.

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

assess such
determine whether they
effectively promote
economic development.

(iii) emphasis shall be
placed on imports of
agricultural activities
which will expand
agricultural production,
particularly activities
which expand production for
export or production to
reduce reliance on imported
agricultural products;

(iv) emphasis shall also
be placed on a distribution
of imports having a broad
development impact in terms
of economic sectors and
geographic regions;

(v) in order to maximize
the likelihood that the
imports financed by the
United States under the ESF
chapter are in addition to
imports which would
otherwise occur,
consideration shall be
given to historical
patterns of foreign
exchange uses;

(vi)(A) seven percent of the
percent of the foreign
currencies generated by the
sale of such imports by the
government of the country
shall be deposited in a
special account established
by that government and,
except as provided in
subparagraph (B) shall be
available only for use in
accordance with the
agreement for economic
development activities

which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

No.

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

N.A.

2. Nonproject Criteria for Development Assistance

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

N.A.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for fund source.)

N.A.

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

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

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

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data

collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas and coal reserves.

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

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

(iv) reconstruction after natural or manmade disaster;

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

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

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. FAA 118(c) and (d) Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

N.A.

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

N.A.

e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N.A.

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. Procurement

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

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? N.A.
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 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 such vessels are available at fair and reasonable rates? N.A.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? 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.

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N.A.
2. FAA Sec. 611(a). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N.A.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N.A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N.A.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N.A.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES.
4. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(F); FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo N.A.

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

- b. FAA Sec. 438. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? N.A.
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? N.A.
- d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? N.A.
- e. FAA Sec. 662. For CIA activities? N.A.
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? N.A.

ANNEK 7

GOS Request for Assistance

ANNEX 8

Guidance Cable (STATE 070741), and
reply (DAKAR 3165)

UNCLASSIFIED

STATE 070741/01

PRH J. G.

ATION: AID-2 INFO: 1 4 RIG

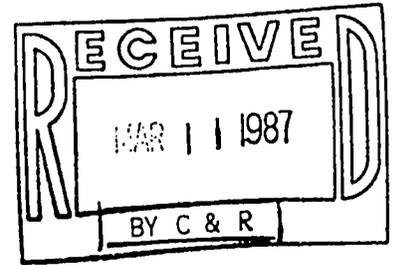
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PP RUTADS
DE RUEHC #0741/01 0700006
ZNR UUUUU ZZH
P 110205Z MAR 87
FM SECSTATE WASHDC
TO AMEMBASSY DAKAR PRIORITY 2888
BT
UNCLAS SECTION 01 OF 02 STATE 070741

HL
3/12/87
3/13/87

LOC: 167 706
11 MAR 87 1009
CN: 11775
CHRG: AID
DIST: AID

AIDAC

11



E.O. 12356: N/A

SUBJECT: ESF V PROGRAM GRANT, 685-0289

REFS: (A) DAKAR 01379, (B) STATE 030449

1. PURSUANT TO REF (B), PROJECT COMMITTEE (PC) CONVENED FEBRUARY 27, 1987 TO REVIEW MISSION'S PROPOSAL FOR ESF V, AS OUTLINED IN REF (A). PC, CHAIRED BY AFR/PD/SWAP, INCLUDED REPRESENTATIVES FROM USAID/DAKAR (PROGRAM OFFICER AND DIRECTOR), AFR/SWA, AF/EPS, AF/W, PPC/EA, AFR/DP/PAR, AND AFR/TR/ARD. BASED ON THIS REVIEW, THE PROJECT COMMITTEE AND BUREAU HAVE CONCLUDED THAT: (1) REF (A) SATISFIES THE PAIP REQUIREMENT; (2) THE OVERALL CONCEPT DESCRIBED IN THE ESF IV PROGRAM DOCUMENTATION REMAINS ESSENTIALLY UNCHANGED UNDER THE ESF V PROPOSAL; AND (3) PURSUANT TO DOA 551, MISSION MAY PROCEED WITH PAAD DEVELOPMENT, APPROVAL AND AUTORIZATION SUBJECT TO THE FOLLOWING CONSIDERATIONS:

ACTION	
INFO	<i>PRH</i>
DIR	
DIRR	
EXO	
PRM	<i>[initials]</i>
ECU	
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Reading	
Embassy	

A. REORGANIZATION OF THE IMPORTED RICE SECTOR: GOS PLAN FOR PRIVATIZING RICE IMPORTS ANNOUNCED SEPTEMBER 4, 1986, (1) ELIMINATES THE QUOTA SYSTEM, (2) PERMITS LICENSED TRADERS TO BUY FROM IMPORTERS FOR WHOLESALE AND RETAIL DISTRIBUTION WITHIN THE COUNTRY, AND (3)

ESTABLISHES A TIMETABLE FOR THE PROGRESSIVE PRIVATIZATION OF RICE IMPORTS; I.E., FOR THE PERIOD 12/1/86 - 11/30/87, THE PRIVATE SECTOR IS RESPONSIBLE FOR 25 PERCENT OF RICE IMPORTS AND, FOR THE PERIOD 12/1/87 - 11/30/88, THE PRIVATE SECTOR WILL IMPORT ALL RICE EXCEPT FOR IMPORTED INCREMENTS TO THE SECURITY STOCK OF ABOUT 60,000 MT, WHICH IS HANDLED BY THE CPSP. TO HELP ENSURE THAT THIS PLAN IS EXECUTED AS PLANNED, BUREAU REQUESTS THAT A COVENANT BE ADDED TO THE GRANT AGREEMENT STIPULATING THAT LICENSING ARRANGEMENTS FOR MARKETING IMPORTED RICE WITHIN THE COUNTRY WILL BE BASED ON OPEN, COMPETITIVE BIDS AND THAT THE TIMETABLE FOR PRIVATIZING THE RICE IMPORT TRADE WILL BE CARRIED OUT PURSUANT TO THE CURRENT PLAN.

1. REF (A) INDICATED THAT SALES PRICES FOR RICE ARE UNIFORM THROUGHOUT THE COUNTRY AND THEREFORE AT VARIANCE

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WITH THE COVENANT UNDER ESF IV WHICH CALLED FOR REGIONAL RETAIL SALES PRICES OF RICE TO REFLECT ADEQUATE MARGINS AND TRANSPORT COSTS. IN DISCUSSING THIS ISSUE, MISSION REPRESENTATIVES POINTED OUT THAT, IN FACT, REGIONAL PRICES WERE SOMEWHAT HIGHER THAN THOSE IN THE CAPITAL. THIS FACT SHOULD BE REFLECTED IN THE PAAD.

C. BUREAU CONCERNED OVER CURRENT PRODUCER PRICES FOR PEANUTS WHICH ARE 50% ABOVE WORLD PRICES. SUCH PRICE DISTORTIONS TRANSLATE INTO A HEAVY GOVERNMENT/ DONOR SUBSIDY TO THE PEANUT FARMERS AND CREATE SIMILAR SUBSIDY DIFFICULTIES FOR THE GAMBIA. AS MISSION AWARE, ESF IV HAD ESTABLISHED A COVENANT CALLING FOR PHASING OUT FIXED PRODUCER PRICES OF EXPORT CROPS IN FAVOR OF A FLEXIBLE FLOOR PRICE MECHANISM TO ESTABLISH A CLOSER RELATIONSHIP BETWEEN WORLD PRICES AND PRODUCER PRICES. WHILE RECOGNIZING THE POLITICAL DIMENSIONS OF THIS ISSUE, BUREAU REQUESTS THAT THE PROPOSED ESF V STUDY ON CROSS PRICE ELASTICITIES BETWEEN CEREALS AND PEANUTS EXAMINE CURRENT PEANUT PRICING POLICIES AND RECOMMEND A FORMULA FOR ELIMINATING THE SUBSIDY INHERENT IN CURRENT PRICING ARRANGEMENTS. THIS STUDY SHOULD BE INITIATED AS SOON AS POSSIBLE TO PERMIT ITS RESULTS TO BE KNOWN PRIOR TO NEGOTIATING FUTURE CONDITIONALITY UNDER THE PROGRAM.

D. IMPLEMENTING STUDIES AND OTHER INVESTIGATIONS IN A TIMELY MANNER: WHILE WE ARE PLEASED WITH THE POLICY RELEVANCY OF THE STUDIES, AUDITS, REPORTS AND ASSESSMENTS CONTEMPLATED UNDER ESF V, WE ARE CONCERNED THAT QUALITY NOT BE COMPROMISED IN AN EFFORT TO LAUNCH THESE VARIOUS INVESTIGATIONS IN THE COMING MONTHS. WE THEREFORE SUGGEST THAT MISSION ESTABLISH A REASONABLE

TIME-PHASED PLAN FOR DEVELOPING THE TERMS OF REFERENCE, SELECTING CONTRACTORS, AND EXECUTING THE STUDIES IN QUESTION. SUCH A PLAN SHOULD BE SET FORTH IN THE PAAD. ONCE THIS PLAN IS DEVELOPED, MISSION WILL WANT TO RECONFIRM THE REASONABLENESS OF THE CONDITIONALITY ASSOCIATED WITH THE RELEASE OF THE SECOND TRANCHE SINCE MANY OF THE CONDITIONS ARE DEPENDENT UPON PROGRESS MADE ON A NUMBER OF THESE STUDIES.

E. LOCAL CURRENCY USES: WHILE MISSION REPRESENTATIVES AT THE AID/W REVIEW MEETING INDICATED THAT ESF IV CFAF GENERATIONS WERE USED IN ACCORDANCE WITH THE TERMS OF THE ESF IV AGREEMENT (I.E., FOR PAYMENTS OF GOS FINANCED OBLIGATIONS TO THE PRIVATE SECTOR TO STIMULATE ECONOMIC ACTIVITIES), THE MISSION SHOULD INCLUDE AN ANNEX TO THE ESF V PAAD WHICH LISTS AND BRIEFLY EXPLAINS HOW THE ESF IV GENERATIONS WERE USED AND THE INTENDED USES, TO THE EXTENT KNOWN, OF ESF V CFAF GENERATIONS. IT IS BUREAU'S UNDERSTANDING PURSUANT TO THE ESF V REVIEW MEETING, THAT

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STATE 070741/01

ESF-V GENERATIONS WILL BE USED FOR THE SAME PURPOSES AND OBJECTIVES AS ESF IV GENERATIONS. PLEASE INFORM AID/W IF ANY CHANGES ARE MADE IN SUCH PURPOSES AND OBJECTIVES.

F. NEW STATUTORY PROVISIONS APPLICABLE TO ESF CASH TRANSFER ASSISTANCE: STATE 52618 SETS FORTH GUIDANCE ON NEW STATUTORY REQUIREMENTS APPLICABLE TO ESF DOLLAR-DENOMINATED CASH TRANSFERS, SUCH AS ESF V. MISSION MUST GIVE CAREFUL ATTENTION TO THE DOCUMENTATION THAT WILL BE REQUIRED TO APPROPRIATELY ACCOUNT FOR BOTH DOLLAR AND LOCAL CURRENCY USES UNDER THE PROGRAM.

G. CHANGING CONDITIONALITY: ANY CHANGE IN CONDITIONALITY SHOULD BE ON THE BASIS OF CONSULTATION WITH AID/W.

H. INITIAL ENVIRONMENTAL EXAMINATION: THE BUREAU'S ENVIRONMENTAL OFFICER APPROVED IEE AS SUBMITTED BY MISSION. COPY BEING POUCHED.

I. MONITORING POLICY REFORM PROGRESS: BUREAU APPLAUDS MISSION DECISION TO FORMALIZE BILATERAL DELIBERATIONS ON POLICY REFORMS BEING PURSUED BY MISSION AND GOS UNDER ESF V AND TITLE I. WE REQUEST THAT OUTCOME OF THESE QUARTERLY MEETINGS BE CABLED OR POUCHED TO AID/W, EITHER SEPARATELY OR AS PART OF SEMI-ANNUAL PIRS. SHULTZ
BT

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OFFICIAL FILE COPY

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 DE RUTADS #3165 086 **
 ZNR UUUUU ZZK
 R 271115Z MAR 87
 FM AMEMBASSY DAKAR
 TO SECSTATE WASHDC 5783
 BT
 UNCLAS DAKAR 43165

CLASS: UNCLASSIFIED
 CHRG: AID 03/19/87
 APPRV: DIR: SJLITTLEFIELD
 DRFTD: PRM: HLUBELL: FS
 CLEAR: DDIR/AMB/PLA
 DISTR: AID AMB DCM

AIDAC

E.C. 12356: N/A

SUBJECT: ESF-V PROGRAM GRANT 585-0269

REF: (A) STATE 070741, (B) DAKAR 00183

1. THE ESF-V PAAD WILL TAKE ACCOUNT OF THE CONSIDERATIONS SET OUT IN REFTTEL, WITH THE CAVEATS BELOW.

PARAG. 1.A:

IS NO NEED TO STIPULATE ANYTHING ABOUT ARRANGEMENTS FOR INTERNAL MARKETING OF IMPORTED RICE SINCE ALL RESTRICTIONS HAVE BEEN REMOVED. THE ONLY CAVEATS ARE THAT THE TRADER HAS TO PURCHASE A MINIMUM OF 10 MT AND TO PAY CASH.

A CONVENANT WILL BE ADDED TO THE EFFECT THAT THE ESTABLISHED TIMETABLE FOR PRIVATIZATION OF THE RICE IMPORT TRADE WILL BE ADHERED TO.

3. REFTTEL PARAG. 1.B: WE WILL INCLUDE A STATEMENT ON REGIONAL PRICING OF RICE IN THE PAAD.

2. REFTTEL PARAG. 1.C:

(A) WE NOW HAVE ACCESS TO THE SCOPE OF WORK FOR THE WIDE-RANGING WORLD BANK-FUNDED STUDY ON AGRICULTURAL PRICES AND INCENTIVES. ITS CENTRAL FOCUS IS RELATIVE PRICES OF PEANUTS AND MILLET, AND IT WILL BE LOOKING AMONG OTHER THINGS AT PRODUCTION COSTS FOR PEANUTS AND MILLET IN THE PEANUT BASIN TO DETERMINE THE RELATIVE PRICES THAT WOULD EQUALIZE RETURNS PER HECTARE PLANTED TO EITHER PEANUTS OR MILLET. HOWEVER, ONCE THE "PROPER" RELATION BETWEEN THE PRODUCER PRICES OF PEANUTS AND MILLET IS ESTABLISHED, A SEPARATE SET OF CONSIDERATIONS WILL BE NEEDED TO GET AT THE RELATION BETWEEN PRODUCTION COSTS IN SENEGAL AND WORLD PRICES, HENCE AT THE SUBSIDY ON PEANUTS. OUR AGRICULTURAL PRICE STUDY THEREFORE WILL FOCUS ON THE IMPLICATIONS FOR GOS CEREALS POLICY OF ADJUSTING PEANUT PROCUREMENT PRICES TO FLUCTUATIONS IN WORLD PRICES. WE WILL DO OUR OWN ~~ESTIMATED~~ ROUGH CALCULATION OF PRODUCER PRICE CROSS-ELASTICITIES FOR MILLET AND PEANUTS USING THE INADEQUATE DATA THAT ARE AVAILABLE.

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(B) YOUR REQUEST THAT OUR STUDY RECOMMEND A FORMULA FOR ELIMINATING THE SUBSIDY INHERENT IN CURRENT PRICING ARRANGEMENTS DOES NOT APPEAR TO BE AN APPROPRIATE STATEMENT OF THE ISSUE. WE WOULD REPHRASE IT AS A NEED FOR A FORMULA FOR ADJUSTING INTERNAL PRICES TO CHANGES IN WORLD PRICES OF SENEGAL'S EXPORT CROPS, WITH A VIEW TO REDUCING THE CURRENT LEVEL OF SUBSIDY ON EXPORTS OF PEANUT PRODUCTS.

REFTEL PARAG. 1.D: WE EXPECT TO HAVE THE TERMS OF REFERENCE FOR STUDIES (1) THROUGH (4) ESTABLISHED BY END-MARCH 1987 AND TO SELECT CONTRACTORS WITHIN SENEGAL, IF POSSIBLE BY END-APRIL 1987. WE WOULD HOPE TO HAVE SUBSTANTIVE DRAFTS OF THE STUDIES IN HAND BEFORE END-SEPTEMBER 1987.

6. REFTEL PARAG. 1.E: WE ARE ADDING AN ANNEX ON LOCAL CURRENCY USES TO THE PAAD.

7. REFTEL PARAG. 1.F: SEE REF B FOR USAID/SENEGAL'S COMMENT ON NEW STATUTORY PROVISIONS APPLICABLE TO ESF CASH TRANSFER ASSISTANCE, TO THE EFFECT THAT WE HAVE, IN FACT, INCLUDED IN PAST ESF CASH GRANT AGREEMENTS ALL OF THE REQUIREMENTS IN THE NEW PROVISIONS. THESE SAME PROCEDURES WILL APPLY TO ESF-V. WALKER

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ANNEX 9

Local Currency Uses, ESF-IV and ESF-V

The local currency (CFAF) counterpart of the three tranches of ESF-IV was used for payments of arrears to private sector enterprises in Senegal, as indicated in the attached project implementation letters (PILs) and the relevant letters from the GOS Ministry of Finance Treasurer General. A list of recipient firms was attached to each letter from the Treasurer General.

We intend to allocate the CFAF counterpart of the \$6,000,000 first tranche of the ESF-V cash transfer to the same purpose (payment of arrears to private sector enterprises in Senegal) and the counterpart of the \$5,025,000 second tranche of the cash transfer as a contribution to retirement of the ONCAD debt.

3010P

USAID/Senegal
B.P. 49
Dakar

Dakar, le 10 septembre 1986

Monsieur Mamoudou Touré
Ministre de l'Economie et des Finances
Centre Peytaviñ
Dakar

AID/PRM/86-73

Subject: A.I.D. Economic Support Fund
(ESF) IV Program (685-0288)
Agreement - First Tranche.
Implementation Letter 0288-03.

Objet: Accord relatif au Programme du
Fonds de Soutien Economique (ESF) IV de
l'USAID (No. 685-0288) -
Première tranche.
Lettre d'Exécution No. 0288-03.

Ref: (A) A.I.D./PRM/86-51; (B) Ministry
of Finance Treasurer to USAID Letter No.
0112/Cab. 1 dated July 17, 1986 (copy
attached).

Ref: (A) N/L AID/PRM/86-51 en date du 9
juillet 1986 ; (B) Lettre du Trésorier
général du Ministère de l'Economie et
des Finances à l'USAID No. 0112/CAB.1 en
date du 17 juillet 1986 (copie jointe).

Dear Sir,

Monsieur le Ministre,

Pursuant to Section 5.2. of the subject Agreement, this Program Implementation Letter (PIL) formalizes in writing USAID acceptance of evidence as presented in the referenced Ministry of Finance letter of July 17, 1986 from Mr. Mamadou Lamine Loum, Treasurer (copy attached), that the prescribed use of local currency in the Special Account has been fulfilled, namely repayment of CFAF 3,756 (three thousand seven hundred fifty six) million of GOS arrears to the private sector in the period of January-June, 1986. The USAID Mission therefore concurs in the release of the local currency equivalent of the first ESF-IV tranche of U.S.\$ 10 (ten) million from the Special Account.

Conformément à la Section 5.2. de l'Accord susmentionné, la présente lettre d'Exécution a pour objet d'officialiser par écrit l'acceptation de l'USAID, comme il est précisé dans la lettre du Trésorier général ci-dessus citée en référence (copie jointe), que les fonds en monnaie locale du Compte spécial ont été utilisés, conformément aux dispositions de l'Accord, à savoir pour le remboursement de la somme de 3.756.000.000 (trois milliards sept cent cinquante six) millions de francs CFA représentant des arriérés de l'Etat au secteur privé, pour la période allant de janvier à juin 1986. En conséquence, l'USAID/Sénégal donne son accord pour le déblocage, du Compte spécial, de l'équivalent en monnaie locale de la première tranche du programme, d'un montant de 10 (dix) millions de dollars américains.

PIL No. 685-0288-03

P. 2

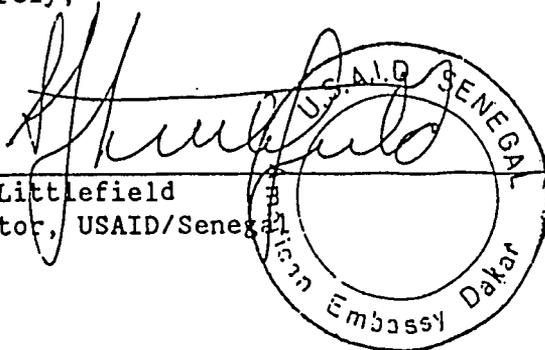
Lettre d'Exécution 685-0288-03

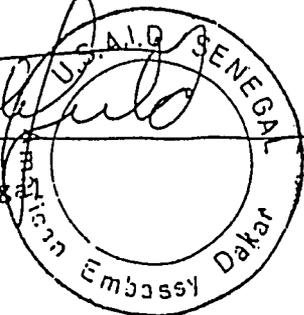
P. 2

This and all subsequent PILs will be prepared in both English and French; the English version will control in the event of ambiguity or conflict between the two versions.

Please sign the original of this PIL and return it to USAID acknowledging receipt. A copy of the letter is enclosed for your files.

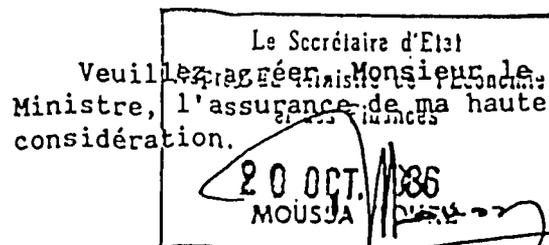
Sincerely,


S.J. Littlefield
Director, USAID/Senegal



La présente Lettre d'Exécution et toutes celles qui suivront seront rédigées en Anglais et en Français; en cas d'ambiguïté ou de désaccord entre les deux versions, la version anglaise fera foi.

Je vous saurais gré de bien vouloir signer l'original de la présente Lettre d'Exécution et la retourner à l'USAID, en accusant ainsi réception. Veuillez trouver ci-joint une copie de la lettre pour vos archives.



Moussa TOURE, Secrétaire d'Etat auprès du Ministre de l'Economie et des Finances.

cc:

- Mr. Magatte P. Sène, National Director, BCEAO.
- Mr. Mamadou Lamine Loum, Treasurer, Ministry of Economy and Finance.
- Mr. Prosper Youm, Director of Projection Department, Ministry of Economy and Finance.

Ampliations:

- M. Magatte P. Sène, Directeur national, BCEAO.
- M. Mamadou Lamine Loum, Trésorier général, Ministère de l'Economie et des Finances.
- M. Prosper Youm, Directeur de la Prévision et de la Conjoncture, Ministère de l'Economie & des Finances.

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REPUBLIQUE DU SENEGAL

MINISTERE DE L'ECONOMIE
ET DES FINANCES

DIRECTION GENERALE DU TRESOR

TRESORERIE GENERALE

Dakar, le

17 JUIL 1986

[See PIL 0288-03]

Le Trésorier général

Référence à rappeler

N° 0112 /Cab.1,

0112

Not V.S.

à M. ONSIFUR HAROLD LUBELL
CHEF DU BUREAU DE PROGRAMME
U.S.A.I.D./SENEGAL - DAKAR -

CONFIDENTIEL

Monsieur,

Suite à votre lettre n° AID/PRM/8651 en date du 9 juillet 1986, je vous fais tenir ci-joint la liste des règlements effectués par l'Agent Comptable central des Etablissements publics et par mes services pour rembourser entre le 1er janvier et le 30 juin 1986 des arriérés de l'Etat et des Etablissements publics envers le secteur privé.

Mes services se tiennent à votre disposition pour des précisions complémentaires à fournir.

Je vous prie d'agréer, Monsieur, l'expression de mes sentiments distingués/.

[Signature]
Mamadou Lamine LOUM
TRESORERIE GENERALE DU SENEGAL
DAKAR

✓ TOTAL: CFAF 3.756.233.975

USAID/Senegal
B.P. 49
Dakar

Dakar, le 10 septembre 1986

Monsieur Mamoudou Touré
Ministre de l'Economie et des Finances
Centre Peytavin
Dakar

AID/PRM/86-74

Subject: A.I.D. Economic Support Fund
(ESF) IV Program (685-0288)
Agreement as amended - Second Tranche.
Implementation Letter 0288-04.

Objet: Accord relatif au Programme du
Fonds de Soutien Economique (ESF) IV de
l'USAID (No. 685-0288) Modifié -
Deuxième Tranche.
Lettre d'Exécution No. 0288-04.

Ref: (A) A.I.D./PRM/86-51; (B) Ministry
of Finance Treasurer to USAID Letter No.
00607/Cab. 1 dated August 19, 1986 (copy
attached).

Ref: (A) N/L AID/PRM/86-51 en date du 9
juillet 1986 ; (B) Lettre du Trésorier
général du Ministère de l'Economie et
des Finances à l'USAID No. 00607/CAB.1
en date du 19 août 1986 (copie jointe).

Dear Sir,

Monsieur le Ministre,

Pursuant to Section 5.2. of the subject Agreement, this Program Implementation Letter (PIL) formalizes in writing USAID acceptance of evidence as presented in the referenced Ministry of Finance letter of August 19, 1986 from Mr. Mamadou Lamine Loum, Treasurer (copy attached), that the prescribed use of local currency in the Special Account has been fulfilled, namely repayment of CFAF 523 (five hundred twenty three) million of GOS arrears to the private sector in the period of July-August, 1986. The USAID Mission therefore concurs in the release of the local currency equivalent of the second ESF-IV tranche of U.S.\$ 1,484,000 from the Special Account.

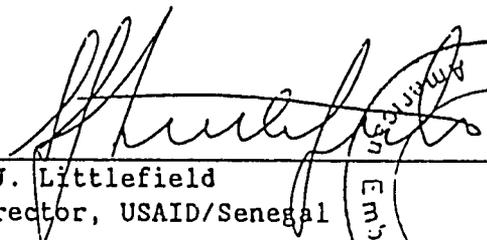
Conformément à la Section 5.2. de l'Accord susmentionné, la présente lettre d'Exécution a pour objet d'officialiser par écrit l'acceptation de l'USAID, comme il est précisé dans la lettre du Trésorier général ci-dessus citée en référence (copie jointe), que les fonds en monnaie locale du Compte spécial ont été utilisés, conformément aux dispositions de l'Accord, à savoir pour le remboursement de la somme de 523 millions de francs CFA représentant des arriérés de l'Etat au secteur privé, pour la période allant de juillet à août 1986. En conséquence, l'USAID/Sénégal donne son accord pour le déblocage, du Compte spécial, de l'équivalent en monnaie locale de la deuxième tranche du Programme, d'un montant de 1.484.000 mille dollars américains.

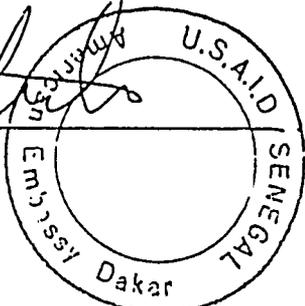
PIL No. 685-0288-0 4P. 2

This and all subsequent PILs will be prepared in both English and French; the English version will control in the event of ambiguity or conflict between the two versions.

Please sign the original of this PIL and return it to USAID acknowledging receipt. A copy of the letter is enclosed for your files.

Sincerely,


 S.J. Littlefield
 Director, USAID/Senegal



cc:

- Mr. Magatte P. Sène,
National Director, BCEAO.
- Mr. Mamadou Lamine Loum, Treasurer,
Ministry of Economy and Finance.
- Mr. Prosper Youm, Director of
Projection Department,
Ministry of Economy and Finance.

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Lettre d'Exécution 685-0288-0 4 P. 2

La présente Lettre d'Exécution et toutes celles qui suivront seront rédigées en Anglais et en Français ; en cas d'ambiguïté ou de désaccord entre les deux versions, la version anglaise fera foi.

Je vous saurais gré de bien vouloir signer l'original de la présente Lettre d'Exécution et la retourner à l'USAID, en accusant ainsi réception. Veuillez trouver ci-joint une copie de la lettre pour vos archives.

Le Secrétaire d'Etat
 Veuillez agréer, Monsieur le
 Ministre, l'assurance de ma haute
 considération.
 20 OCT 1986
 MOUSSA TOURE

Moussa TOURE, Secrétaire d'Etat auprès
 du Ministre de l'Economie et des Finances

Ampliations:

- M. Magatte P. Sène, Directeur national,
BCEAO.
- M. Mamadou Lamine Loum,
Trésorier général, Ministère de
l'Economie et des Finances.
- M. Prosper Youm, Directeur de la
Prévision et de la Conjoncture,
Ministère de l'Economie
& des Finances.

2294P

M.A.S/A

REPUBLIQUE DU SENEGAL

MINISTERE DE L'ECONOMIE
ET DES FINANCES

DIRECTION GENERALE DU TRESOR

TRESORERIE GENERALE

Dakar, le 19 AOUT 1986
AOUT 1986

[See P/L 0288-04]

Le Trésorier général

Référence à rappeler

N°

00607 /CAB.1

00607

à Monsieur Harold LUBELL Chef du Bureau
du Programme USAID/SENEGAL

-- DAKAR --

Monsieur,

Je vous prie de bien vouloir trouver ci-joint une
liste des règlements effectués par mes services pendant la période du
1er juillet 1986 au 18 août 1986 pour rembourser des arriérés de l'Etat
envers le secteur privé et les petites et moyennes entreprises.

Ces paiements portent sur un montant total de francs
CINQ CENT VINGT DEUX MILLIONS SEPT CENT TROIS MILLE SOIXANTE (522 703 060).

Veillez agréer, Monsieur, l'expression de mes senti-
ments distingués./-

LE TRESORIER GENERAL
Par Procuration



USAID/Senegal
B.P. 49
Dakar

Embassy of the United States of America

Dakar, le 2 décembre 1986

Monsieur Moussa TOURE, Secrétaire d'Etat après
Ministre de l'Economie & des Finances
Centre Peytavin
Dakar

AID/PRM/86-91

Subject: A.I.D. Economic Support Fund
(ESF) IV Program (685-0288)
Agreement as amended - Third
Tranche.
Implementation Letter 0288-05

Objet : Accord relatif au Programme du
Fonds de Soutien Economique
(FSE) IV de l'USAID (No.
685-0288) modifié - Troisième
Tranche.
Lettre d'Exécution No. 0288-05.

Dear Sir,

This Program Implementation letter (PIL) authorizes release from the Special Account of the CFAF equivalent of the \$1.0 million third tranche of ESF-IV Program for further payment of GOS arrears to the private sector, in accordance with the prescribed uses of local currency in the Special Account specified in Section 5.2. of the Grant Agreement.

Please forward from the Ministry of Finance Treasurer a listing of the firms receiving payment under this use of the Special Account.

This and all subsequent PILs will be prepared in both English and French; the English version will control in the event of ambiguity or conflict between the two versions.

Monsieur le Ministre,

La présente Lettre d'Exécution autorise le déblocage, du Compte spécial, de l'équivalent en FCFA de un (1) million de dollars représentant la troisième tranche du Programme FSE IV en vue de poursuivre le remboursement des arriérés de l'Etat envers le secteur privé, conformément aux dispositions relatives à l'utilisation des fonds en monnaie locale du Compte spécial stipulées à la Section 5.2. de l'Accord de Subvention.

Je vous prie de bien vouloir demander au Trésorier général de nous envoyer la liste des entreprises bénéficiant des remboursements dans le cadre de l'utilisation des fonds du Compte spécial.

La présente Lettre d'Exécution et toutes celles qui suivront seront rédigées en Anglais et en Français; en cas d'ambiguïté ou de désaccord entre les deux versions, la version anglaise fera foi.

PIL No. 0288-05 ESF-IV

P. 2

Please sign the original of this PIL and return it to USAID acknowledging receipt. A copy of the letter is enclosed for your files.

Sincerely,


George Carner
Acting Director, USAID/Senegal


cc:

Mr. Magatte P. Sène, National Director, BCEAO.
Mr. Mamadou Lamine Loum, Treasurer, Ministry of Economy and Finance
Mr. Prosper Youm, Director of Projection Department, Ministry of Economy and Finance.

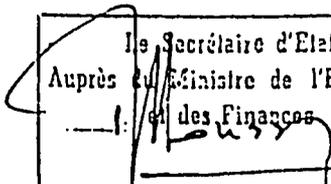
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PIL No. 0288-05 ESF-IV

P. 2

Je vous prie de bien vouloir signer l'original de la présente lettre et la retourner à l'USAID, en accusant ainsi réception. Veuillez trouver ci-joint une copie de la lettre pour vos archives.

Veillez croire, Monsieur le Ministre, à l'assurance de ma haute considération.


Moussa TOURE, Secrétaire d'Etat
auprès du Ministre de l'Economie
et des Finances

Moussa TOURE, Secrétaire d'Etat
auprès du Ministre de l'Economie & des Finances

Ampliations

M. Magatte P. Sène, Directeur national, BCEAO
M. Mamadou Lamine Loum, Trésorier général, Ministère de l'Economie et des Finances
M. Prosper A. Youm, Directeur de la Prévision et de la Conjoncture, Ministère de l'Economie et des Finances.

2505P

REPUBLIQUE DU SENEGAL

MINISTRE DE L'ECONOMIE
ET DES FINANCES

DIRECTION GENERALE DU TRESOR

TRESORERIE GENERALE

Dakar, le 27 DEC. 1986

27 DEC. 1986

Reply to P/L 0288-05

Le Trésorier général

Référence à rappeler

N° 1188/DS.

1188

à M^{onsieur} HAROLD LUBELL
CHEF DU BUREAU DU PROGRAMME
USAID/SENEGAL

DAKAR

Monsieur,

Je vous fais tenir ci-joint une liste de règlements effectués par mes services pour rembourser entre le 1er décembre 1986 et le 20 décembre 1986 des arriérés d'Etat envers les petites et moyennes Entreprises et d'autres entreprises du secteur privé.

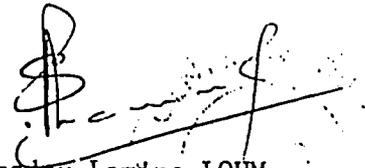
Ces paiements qui portent sur un montant total de trois cent un millions sept cent cinquante huit mille trente F.(301.758.030), peuvent être remboursés avec la dernière tranche de l'aide budgétaire de trois cent vingt six millions deux cent cinquante mille francs (326.250.000 F) versée le 15 décembre 1986 par votre Gouvernement.

Je vous saurais gré des dispositions que vous voudrez bien prendre pour votre autorisation de déblocage de ces fonds avant le 31 décembre 1986.

.../..

Mes services se tiennent à votre disposition pour des précisions complémentaires à fournir.

Je vous prie d'agréer, Monsieur, l'expression de mes sentiments distingués/.

A handwritten signature in black ink, appearing to read 'M. Lamine LOUM', with a horizontal line drawn through it.

Mamadou Lamine LOUM.-

ANNEX 10

Action Memorandum

ACTION MEMORANDUM FOR THE DIRECTOR USAID/SENEGAL

DATE: April 6, 1987

FROM: Harold Lubell, Program Officer

SUBJECT: Senegal FY 1987 Economic Support Fund, 685-0289 (685-K-606)

I. Problem

Your approval is requested for a Structural Adjustment Program Grant of \$11,575,000 from Section 531 (a) (1) of the Foreign Assistance Act of 1961, as amended, Economic Support Fund (ESF) appropriation, to Senegal. Of this amount, \$11,075,000 will be executed as a cash transfer to provide direct budgetary support to the Government of Senegal (GOS), and \$500,000 will be reserved for studies and technical assistance in support of structural adjustment measures being undertaken by the GOS. It is planned that the total life of program funding of \$11,575,000 will be obligated in FY 1987. The \$11,075,000 cash transfer will be disbursed in two separate tranches (\$6,000,000 and \$5,075,000) when conditions precedent to each disbursement have been met.

II. Discussion

A. Program Description and Purpose

The purpose of this program is to assist Senegal in attaining economic stability and in maintaining political stability while promoting structural reforms needed to redress the underlying problems of the economy.

The need for program assistance to Senegal will continue throughout the FY 1987 - FY 1988 period; based on the most recent figures of the IMF, the total financing requirements of the GOS on current and capital budgets from internal and external sources for GOS FY 1986/87 alone are estimated to be FCFA 42.3 billion or \$141.0 million (at \$1= 300 CFAF). Senegal has compiled a solid record of implementing policy changes over the past three years but the need for hard structural adjustment continues. The Mission is supporting these efforts through a multi-year ESF program. A fruitful coordination based on inter-related conditionality has been established among the principal donors to Senegal: IMF, France, World Bank, EEC, and USAID. The purpose of this coordination is to reduce the dominance of the GOS in the economy. The results of coordination have been most evident over past three years as the GOS undertook a series of politically and socially sensitive reforms.

The ECPR, held in Washington on November 27, 1985 to review the Program Assistance Initial Proposal (PAIP) for this ESF program, concurred that the ESF program should maintain a multi-year focus as a basis for developing a

long-term approach with the GOS aimed at resolving Senegal's structural problems, but that the program would be based on annual and separate authorizations. Assuming that funding levels remain under \$20.0 million, AID/Washington preference is to continue authorization of future PAADs in the field in accordance with DOA 551, revised. However, the USAID will submit, by cable, an annual progress report at the conclusion of each USG fiscal year. This report will (1) describe GOS performance in implementing the previous year's conditions and covenants, (2) set forth conditionality that appears likely for the coming year and (3) discuss plans for changes in the program's long term objectives compared to what was contemplated in the current year's PAAD.

The cable is to be sent to AID/Washington for decision on the authorization venue for the next year's PAAD. The Mission will be advised by cable of AID/Washington comments and authorization venues. This process for authorizing programs in following years assumes that the overall program concept described in the ESF IV PAIP and PAAD remains unchanged. If the concept changes, a formal PAIP will be required.

Such a reporting cable was submitted as a request for ESF-V on February 9, 1987 (Dakar 01379). An AID/W project committee held on February 27, 1987 concluded that (1) the request cable satisfies the PAIP requirement; (2) the overall concept described in the ESF-IV program documentation remains essentially unchanged under the ESF-V proposal; and (3) pursuant to DOA 551, the Mission may proceed with PAAD development, approval and authorization subject to several considerations noted in State 070741 (see Annex 8 of the ESF-V PAAD).

The USAID has determined that the cash transfer mechanism for the bulk of the grant is the most appropriate manner by which to achieve the program purpose. Upon certification by the Mission Director that the GOS has met the conditions precedent to each disbursement, the funds will be disbursed in accordance with mutual GOS and AID agreement. Part of the grant will be reserved for studies and technical assistance related to structural adjustment.

It is anticipated that the GOS will employ local currencies made available in the context of this ESF program to stimulate growth in the economy through reimbursement of arrears or other measures that will help to restore financial liquidity to the private and banking sectors.

B. Financial Summary

Life of program funding of \$11,575,000 for ESF-V is to be fully obligated. Of this amount, \$11,075,000 will be a cash transfer to be disbursed in two separate tranches (\$6,000,000 and \$5,075,000) in FY 1987, and \$500,000 will be reserved for studies and technical assistance related to structural adjustment.

C. Analyses

1. Economic

Senegal is beginning to recover from an economic crisis of unprecedented dimensions stemming from the coincidence of a catastrophic series of drought over the periods 1969-1973 and 1979-1984, declines in the world price of peanuts and phosphates, OPEC-mandated rises in energy prices of 1973 and 1979, labor laws and business monopoly practices that stifle potential industrial growth, a rapid increase in population, and a panoply of counter-productive economic policies developed over the quarter century since independence.

The economic crisis has been well documented and analyzed in a series of USAID/Senegal and donor documents. These analyses have laid the foundation for a coordinated program of donor assistance whose purpose is to stabilize Senegal's economy and stimulate economic growth.

The AID/Washington ECPR approved on November 27, 1985 the Program Assistance Initial Proposal (PAIP) which contained the basic macroeconomic and agricultural justification for a 3-year series of ESF structural adjustment program grants.

The Mission Project Committee (PC) found that the economic analysis contained in the FY 1986 ESF-IV Program Assistance Approval Document (PAAD) satisfactorily justified the need for this program. The Mission PC reviewed the up-date of the economic analysis contained in the FY 1987 ESF-V PAAD and found that the justification still holds.

2. Reform Package

The policy reforms associated with this program are concerned with reducing the dominance of the GOS in the key agricultural sector. The reforms represent a continuation of USAID interests in the subsectors of rice import operations, price equalization, and provision of agricultural inputs that began with the initial ESF program in FY 1983.

The policy reform themes of ESF-V focus on improving policy management, damping imported rice consumption, reducing agricultural sector deficits, and encouraging private sector agro-industry.

GOS performance in implementing this reform package will be reviewed before decisions regarding future ESF programs for Senegal are made.

3. Human Rights

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

D. Conditions Precedents (CP) and Covenants

The \$11,575,000 ESF-V program grant is conditioned on the implementation of a series of policy change conditions described in Section V of the ESF-V PAAD.

In addition to the policy change conditionality, the GOS will establish a CFAF special account in the Central Bank and deposit therein currency of the GOS in amount equal to disbursements of the cash transfer under the grant. Funds in the special account may be used for budget purposes mutually agreed upon by A.I.D. and the GOS. The CFAF special account will remain blocked until the USAID Mission Director authorizes release of funds.

E. Implementation Plan

Once the Grant Program Assistance Agreement (GPAA) and Financing Request are signed and evidence has been provided that all CPs have been met, the Mission will cable a Financing Request to AID/W. M/FM/PAFD will then schedule payment through the Federal Reserve Electronic Funds Transfer System to the appropriate account of the GOS in the Chase Manhattan Bank, New York.

A disbursement of equivalent local currencies will be made with the mutual consent of the GOS and A.I.D.. A letter from the USAID Mission Director to the GOS will constitute A.I.D. consent to use and timing of fund disbursements.

F. Major Implementing Agencies

The management of these funds will be the responsibility of the GOS Ministry of Economy and Finance and the Central Bank of Senegal.

A.I.D. officers responsible for the implementation of this ESF-V grant are:

Mr. Harold Lubell
Program Officer
USAID/Senegal

Mr. Barry Burnett
AFR/PD/SWAP

III. Waivers

There are no waiver requests contained in this program.

IV. Justification to Congress

A Proposed Project Activity Statement for this ESF Program was contained in the FY 1987 Congressional Presentation, Annex I, Africa, page 359. No further notification to the Congress is required in this case.

V. Clearances

The AID/Washington ECPR held in November 27, 1985 to review the original PAIP for the ESF-IV grant was chaired by DAA/AFR/CWA, Lois Richards. The ECPR approved the PAIP and delegated authorization of the PAAD to the Mission Director USAID/Senegal, subject to AID/Washington concurrence based on an interim reporting cable. AID/Washington concurrence with the program as contained in the interim reporting cable was received on December 27, 1985 (State 391765).

The AID/Washington PC meeting on ESF-V held on February 27, 1987 was chaired by Barry Burnett (AFR/PD/SWAP). The favorable conclusions of the PC were reviewed and approved by DAA/AFR/CWA Lois Richards on March 2, 1987. The PC reporting cable (State 070741) was sent on March 11, 1987.

The Mission PC has concluded that the ESF-V PAAD be forwarded to the Director USAID/Senegal for authorization.

VI. Recommendation

That you sign the attached Program Assistance Approval Document (PAAD) facesheet and thereby approve life of program funding of \$11,575,000 for the Senegal ESF Program, 685-0289 (685-K-606).

Clearances

DDIR:GCarner GC 4/8/87
LEG:EDragon ED 4/2/87
PRM/OPS:CSMcclusky CSM 4/3/87
PDO:JSchlesinger JS 09 APR 87
RCON:Jito J 4/6/87
ADO:WNilsestuen WKN 4/6/87