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FINAL REPORT

EVALUATION OF THE ECONOMIC SUPPORT FUND (ESF) USAID/SENEGAL PROGRAM GRANT YEARS IV AND V

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TvT Associates

503 Capitol Court, N.E., Suite 300 ☐ Washington, D.C. 20002 ☐ (202) 547-4550

EVALUATION OF ESF IV AND V
(and Preliminary Evaluation of ESF VI)

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ACRONYMS

BCEAO	- Banque Centrale des States de l'Afrique Occidentale
CCCE	- Caisse Centrale pour la Coopération Économique (French Development Lending Agency)
CFA franc	- franc of the Communité Financière Africaine (CFAF 50 = 1 F. Fr.)
CNCA	- Caisse Nationale de Credit Agricole
CPSP	- Caisse de Péréquation et de Stabilisation des Prix
CSA	- Commissariat a la Sécurité Alimentaire
CSS	- Compagnie Sucrière du Sénégal
EEC	- European Economic Community
ESF	- Economic Support Fund
GDP	- Gross Domestic Product
GMD	- Grands Moulins de Dakar
GOS	- Government of Senegal
IMF	- International Monetary Fund
IQC	- Indefinite Quantity Contract
MDR	- Ministry of Rural Development
PAML	- Medium Second Long-Term Economic & Financial Adjustment Program
OMVS	- Office de la Mise en Valeur de la Vallée du Sénégal
SAED	- Rice Development Agency in the Senegal River Valley
SAL	- Structural Adjustment Loan
SODAGRI	- Regional Public Agricultural Development Agencies
SODEFITEX	- Regional Public Agricultural Development Agencies

SODEVA	- Regional Public Agricultural Development Agencies
SOMIVAC	- Regional Public Agricultural Development Agencies
SONACOS	- Société Nationale de la Commercialisation des Oléagineux du Sénégal
SONADIS	- Société Nationale de Distribution
SONED	- Societe Nationale pour les Etudes du Dévéloppment
USAID	- Senegal Mission of the United States Agency for International Development
WAMU	- West African Monetary Union

SUMMARY

This final report covers work completed under Delivery Order Number 13 of indefinite quantity contract PDC-0085-I-00-6108-00. Field observation and assessment were conducted in Dakar, Senegal from July 4 to July 29, 1989, by John H. Huber, consultant, in cooperation with USAID/Senegal.

The Economic Support Fund (ESF) program provides budget support to the Government of Senegal (GOS) in return for policy changes mutually agreed to within the framework of the GOS's structural adjustment program. Dollar deposits accrue to Senegal's operations account with the regional national bank (BCEAO). Counterpart funds are used by the GOS, with USAID approval, to repay arrears to the private sector.

The purpose of this evaluation is to assess the effectiveness of this program (through its operation in ESF IV, V, and VI, to the extent the latter has been implemented) as a means to bring about GOS policy reforms, as a vehicle for the USAID-GOS policy dialogue, and in terms of operational performance.

ESF IV, V and VI addressed the following major policy reform objectives in agriculture between 1985 and 1989:

1. rice import privatization/marketing liberalization,
2. phasing out price compensation,
3. raising the efficiency of agro-industry: reducing the fiscal burden;
4. increasing coarse grain cereal consumption: reducing rice imports, and
5. maximizing GOS receipts from wheat imports.

In addition, the conditionality aimed at eliminating arrears to the GOS; bringing about transparency in financial relations between the GOS and public agro-industries, as well as certain private ones; and carrying out a number of studies with a view to increasing agricultural efficiency.

The evaluation found that of a total of 59 policy measures, the GOS has satisfied 43, not satisfied 8, and 8 are still pending. (Appendix A contains an itemized list of each conditionality/objective and the extent to which implementation of policies or actions has satisfied each conditionality.)

The GOS has proceeded on reforms in areas where the political consequences for it were considered tolerable. The program has been successful in clearing up arrears owed to the GOS, in bringing about reforms in the operations of such GOS entities as CPSP and SONACOS, and in reducing the costs to the GOS of such private companies as the Grands Moulins de Dakar (GMD) and Compagnie Sucriere du Senegal (CSS).

The program has not been successful in introducing reforms where the strategic interests of the GOS were affected, as with eliminating the price compensation system or CPSP's monopoly on broken rice imports. At the same time, USAID could not present a convincing case that its recommended reforms would bring about reliable economic advantages. Therefore, ESF IV and V have not been completely successful in bringing about the desired GOS policy reforms.

The program has been fully successful in providing a vehicle for a high-level policy dialogue and for carrying out studies on difficult policy issues for the GOS. Program management has been smooth and efficient. The dollar deposits helped the GOS alleviate its deficit in its operations (foreign exchange) account, and the counterpart funds have helped it reach its fiscal targets with the International Monetary Fund (IMF) by paying off a portion ot its arrears with the private sector. Overall, the program has operated satisfactorily and achieved most of its policy reform objectives.

The reasons why certain key objectives, such as rice import privatization and the elimination of the price compensation system, were not attained can be traced to the CFA franc's overvaluation. It is unlikely that the GOS will change its policies while this overvaluation continues. These two objectives are no longer being pursued by the donors, although certain modifications to the policy of a fixed peanut producer price will be sought. International price trends support the CPSP's and SONACOS' expectations that price compensation will be in approximate balance for 1989, compared to a loss of about CFAF 27 billion in 1988.

While the ESF program has operated successfully, it is the evaluator's contention that budget support to the GOS through the gift of counterpart funds had the opposite effect of that desired; that is, it has hindered structural adjustment rather than fostered reform in at least two observed areas: (1) reduction of the civil service payroll, and (2) privatization of loss-making parastatal enterprises. Reduction of the excessively large and costly civil service has been a reform conditionality of the World Bank since 1984. Budget support, however, has made it possible for the GOS to avoid or postpone these key reforms. It also has enabled the

GOS to maintain and even increase accustomed public expenditure patterns.

The evaluator recommends that the counterpart funds from ESF disbursements be redirected to employment-creating activities in the private sector, especially for small and medium-sized enterprises. If ESF counterpart funds can be utilized only for GOS budget support, consideration should be given to terminating this program in favor of project assistance, such as USAID's Community and Enterprise Development Project. The USAID-GOS working group on policy reform should be continued independently of any budget support.

I. OVERVIEW: FOCUS OF EVALUATION

The purpose of the ESF program is to provide budget support to the Government of Senegal (GOS) to assist it in regaining financial equilibrium, while carrying out structural adjustments to correct distortions, and maintaining political stability. The program provides counterpart funds from USAID which are used by the GOS to help it pay off arrears to the private sector and (presumably) thereby to help maintain employment. ESF makes it easier for the GOS to reach its fiscal targets agreed with the IMF. In return for this budget support, the GOS has agreed to a formal periodic policy dialogue with USAID and the implementation of specific policy reforms.

The focus of this evaluation is to describe Senegal's macro-economic setting when the three-year program was defined and to follow it to the present, especially in agriculture. The analysis, then, describes the background and evolution to date of the specific agricultural pricing policies selected in ESF IV, V and VI as key factors for reform. Conclusions then are drawn regarding each of the pricing policy reform areas.

The specific agricultural reform issues selected in ESF IV, V and VI are concerned with (1) rice import privatization and its domestic marketing liberalization; (2) phasing out the price compensation system; (3) raising the efficiency of agro-industries and reducing their fiscal burden; (4) increasing coarse grain cereal consumption and reducing rice imports; and (5) maximizing GOS receipts from wheat imports.

The evaluation also covers program management, both by USAID and the GOS; the effectiveness of the GOS-USAID Working Group on Policy Reform; links with other USAID programs and those of other donors; and the effectiveness of the ESF approach in general.

Since the ESF program operates in an environment of an overvalued currency and, in fact, many of the policy problems are caused by this overvaluation, this evaluation also assesses the likely future relationship between the CFA franc and the French franc and the implications for the GOS budget. Furthermore, it assesses the effect of budget support on the GOS's implementation of certain policy reforms and then draws certain conclusions regarding the allocation of counterpart funds in the interest of supporting the GOS's key objective of creating employment in the private sector.

II. BACKGROUND

A. Three-year Program Concept, ESF IV - VI

When the first ESF program was established in July 1983, it was conceived as a medium-term program over three years. Thus the conditionality linked to the FY 1983 - FY 1985 ESF program evolved from support for short-term economic stabilization measures associated with IMF standby agreements. The program also concentrated on longer term structural reforms in agriculture aimed at eliminating GOS dominance of the sector in favor of private initiatives; reducing GOS expenditures; increasing domestic resource mobilization; and recapitalizing the banking sector. ESFs I - III achieved major progress toward these objectives and, in particular, resulted in the GOS's New Agricultural Policy of April 1984, in conjunction with IMF, World Bank and French programs. These called for dramatic reductions in state domination of the economy and increased efficiency in production.

When ESF IV was designed, the multi-year focus of the program was maintained as a basis for developing a longer-term approach with the GOS, aimed at resolving certain structural problems. At that time (September 1986) USAID approached policy reforms in a flexible framework to be able to maintain the impetus for an appropriate pace of policy reform. Thus, the first year's conditionality was firm, but the second and third years' only indicative. ESF IV called for priority attention in the following areas: reorganizing the imported rice sector, phasing out the price compensation system, increasing the efficiency of agro-industries, and privatizing fertilizer distribution.

In ESF V (March 1987) the emphasis had shifted to concerns about the high level of imported rice consumption, reducing agricultural sector deficits, encouraging private sector agro-businesses, and reducing agricultural sector deficits, especially that from sugar. Finally, in ESF VI (November 1988) the focus turned to maximizing GOS receipts from wheat imports, reducing agricultural sector deficits and encouraging private sector agro-industries.

Aside from this policy reform focus, the ESF program was designed to continue the assistance to the GOS in the form of direct dollar transfers, with which the GOS "buys" CFAF from the BCEAO. The dollars accrue to the West African Monetary Union's (WAMU) foreign exchange reserves, and the local currency equivalent is used by the GOS, with USAID agreement, to repay arrears to the private sector.

B. Assumptions Underlying the Program Concepts

The choice of agriculture as the area of primary focus for policy reforms in ESFs IV, V and VI emerged from the fact that arable land is the country's most important natural resource endowment (others are fish, phosphates, sunshine and beaches), providing a living for two thirds of Senegal's population (although contributing only about 10 percent to its GDP). However, in spite of substantial investments, the agriculture sector's performance has been declining. This trend resulted in part from droughts in some years and unfavorable distribution of rainfall in others, and environmental degradation, especially increasing desertification, erosion and declining soil fertility. The major reasons for the sector's decline, however, were the unfortunate GOS policies which discouraged farmer initiatives with heavy-handed interference by parastatal organizations, from input supply to price control and marketing. Strategic solutions included the removal of GOS interference in agriculture in favor of market incentives and expanded private sector involvement, assured input supply, improved water management, better research and extension, and active environmental protection.

Given the importance of agriculture in Senegal's economy, the challenges presented from the ecological deterioration, and the need for feeding a rapidly growing population, the inflexible pricing policies pursued by the GOS and the inefficiency of the parapublic agro-enterprises became natural targets for USAID to pursue as policy reform objectives in the ESFs. The underlying assumption was that once the misguided policies were corrected, a supply response would follow quickly and the downward trends would be reversed. The GOS's New Agricultural Policy of 1984 and its Cereals Plan of 1986 strengthened USAID's judgement that its proposed policy reforms were on the right track.

C. Coherence with World Bank and IMF Programs

When the conditionality of ESF IV was devised, the World Bank had just formulated its second structural adjustment loan (SAL II) which included wide-ranging reform measures, from promoting agricultural production, reform of industrial incentives, and public investment policy to reform of the parapublic sector and improvement of public finances. In the agricultural sector, reform measures focused on the cereals sector, input pricing, phasing out parastatal rural development agencies, and reform of the entire groundnut sector.

USAID's policy targets in ESF IV were carefully integrated with those of the World Bank's SAL II and those of other donors, especially the French and EEC programs, to fit into a coherent program of structural policy reforms.

Similarly, the IMF's standby agreement then in effect called for measures to reform crop credits, especially involving groundnuts, cotton and rice. At that time the state agricultural agencies did not reimburse credit for the previous crop year before drawing new credit. This had the effect of holding the GOS hostage for payment of subsidies before crop credit was fully reimbursed. Reimbursement of crop credit was an IMF target. The conditionality in ESF IV requiring the full reimbursement of arrears owed to the GOS by the CPSP and SONACOS reinforced the IMF targets. This was also the case with the application of counterpart funds to the repayment of GOS arrears to the private sector. The IMF had certified the need for budget support. (For 1986/87 alone the budget deficit amounted to CFAF 46 billion or 3.4 percent of GDP.) This close coordination with the other major donors has continued and is still in effect. With ESF VI, USAID targeted maximization of GOS receipts from wheat imports, which was specifically integrated into the IMF program.

D. ESF Assistance as a Vehicle for USAID Policy Dialogue

While USAID had maintained a dialogue on policy issues with the GOS ever since its establishment, the need developed over time to formalize this procedure into a regular quarterly, or more frequent, procedure. Therefore, ESF V contained, for the first time as a condition, a requirement for the GOS to hold quarterly high-level meetings between USAID and concerned ministries on agricultural reform and other aspects of structural adjustment, as well as on the status of analysis and decisions related to structural adjustment measures under implementation or planned.

III. MACRO-ECONOMIC CONTEXT

A. Economic Trends through 1985

As a direct consequence of its misguided economic policies of the 1970's, Senegal encountered a deepening economic crisis in 1980 and 1981, which was severely aggravated by shrinking export revenues, the oil price shock of 1979, and several years of successive droughts. The GDP was contracting, the current account was in deficit for nearly 25 percent of GDP, and exchange reserves had become negative to the extent of equalling six months of imports. Since the GOS could no longer meet its obligations, internal and external arrears began to accumulate. Faced with this crisis, the GOS adopted a rehabilitation plan to reverse the trends, with the help of USAID, World Bank (Structural Adjustment Loan I), IMF, French, EEC, and other donor assistance. Since the GOS was unable to meet all conditions in the World Bank and Fund programs, neither program was implemented fully. The GOS was, at the time, faced with collapsing export prices, continued droughts and an election campaign. By 1984, still worsening trends induced the GOS to seek support from a Consultative Group which had prepared a Medium- and Long-Term Economic and Financial Adjustment Program (PAML), 1985-1992. The principal objectives of this program were to achieve stabilization and reform, through a reduced role of the GOS; production incentives; and sound investment programming. In its Letter of Development Policy of December 1985, the GOS set out its goals of restoring the basis for growth by 1992:

- raising domestic savings to finance investments without major recourse to external sources,
- achieving an operating budget surplus, and
- reducing the current account deficit to 2.8 percent of GDP.

B. Reforms in 1985 - 1988

A comparison of Senegal's economy of 1988 with that of the early 1980s discloses a significant transformation, even though this transformation has not yet reached the stage at which self-sustaining economic growth is possible. The economy is no longer

as regulated as it was earlier in the decade. Quantitative import restrictions and price controls have been removed, with certain exceptions. Producer prices for peanuts and paddy, and consumer prices for rice, bread, sugar, petroleum products and a small number of other goods considered strategic remain in effect. Prices now move more freely with supply and demand, especially for domestic staples such as millet, sorghum, maize and niebe. There is much more private sector activity in domestic trade, transportation and processing of agricultural commodities. Even the labor code has been revised to make it somewhat more flexible in response to economic cycles. Perhaps of even greater importance is the direction of future change which the GOS has spelled out in various policy statements. The Senegalese economy aspires to become predominantly a decentralized private enterprise economy with a government role limited to that of facilitating private initiatives rather than one of controlling and directing economic life as in the past.

In spite of the reforms achieved since 1985, progress in the structural adjustment of Senegal's economy remains unsatisfactory if judged against the goals of the GOS's PAML, 1985-1992. Half of this period has elapsed, but the more difficult adjustment measures remain undone. Public consumption continues to be too heavy a burden on the economy, with public revenues still claiming over 17 percent of GDP. The public wage bill still accounts for half of the GOS's operating expenditures, even though the reduction of the public payroll has been a reform target since 1985. Another burden on the economy is the parapublic sector, the losses of which weigh on the GOS's limited resources. The privatization of loss-making state enterprises remains an elusive goal.

A key factor in private enterprise development is the availability of credit at reasonable rates. With roughly half of the entire banking sector's assets in default, the financial intermediation role of the banks is severely circumscribed. Finally, the labor market rules have remained overly protective of a relatively small number of employed workers in the modern sectors of the economy. These problems are largely of a policy nature that are within the power of the GOS to change. However, their solution would result in political costs which the GOS so far has not been willing to pay. Hence, the supply response to Senegal's structural reforms has not yet come about. Against this slow process of reform, however, must be set the rapid population increase, environmental degradation and deteriorating infrastructure. Time is not on the side of the GOS.

IV. AGRICULTURAL SECTOR CONTEXT

A. Agricultural Trends through 1984

Agriculture is of key importance to the Senegalese economy. Although it contributes only some 10 percent to its GDP, it provides a living for the vast majority of the population and contributes about one third of the nation's exports. Within the sector, some 60 percent of value added comes from crops, 18 percent from livestock, 15 percent from fishing, and 7 percent from forestry. Basic foodcrops are millet, sorghum, rice, maize and cowpeas; groundnuts and cotton are the main export crops. Over 90 percent of rural output is produced by small-scale rainfed farms, but there is much diversity in farm size, labor availability, ownership of agricultural capital, productivity and revenue. The sector is sensitive to rainfall, which is often erratic, and the long-term growth rate in the 1970s and 1980s has been only 0.5 percent/year with wide fluctuations. Major factors inhibiting agricultural growth, aside from the climatic conditions, were: discouragement of private sector initiative through misguided GOS policies; over-involvement of the state in productive activities; and inefficiencies of public agencies.

Prior to 1984, the thrust of adjustment consisted of efforts to revitalize agriculture by increased input availabilities, agricultural credit and price support. The goals were to increase and diversify production and exports, and to raise productivity. With the adoption of the New Agricultural Policy in 1984, the strategy of fostering private sector initiatives through a change in incentive policies and a progressive withdrawal of the GOS from direct interference in productive activities was officially put in place. The specific goals were to:

- increase cereals production and privatize internal marketing and import of cereals,
- expand production and streamline marketing of groundnuts,
- decontrol the supply of agricultural inputs and reduce subsidies,
- redefine and reduce the roles of the GOS's rural development agencies, and
- strengthen the investment planning and management capacity of the Ministry of Rural Development (MDR).

B. Reforms in 1985 - 1988

In 1985 and 1986 progress on these fronts was significant:

- The development of domestic cereals production was stimulated by maintaining the volume of rice imports at the 1984 level and keeping consumer prices sufficiently high to protect domestic production incentives. Barriers and controls on the internal marketing of cereals were lifted, but producer prices were maintained for all major crops.

- Controls governing the groundnut sector were reduced and free seed distribution terminated. Subsidies covering the oil millers' fixed costs were eliminated.

- Progress was made in decontrolling fertilizer imports, and the subsidies to the farmers were reduced.

- The activities of the rural development agencies were scaled down and the contractual agreements (lettres de mission) were revised for SAED (development agency for the Senegal River Valley, especially for rice cultivation), SOMIVAC and SODAGRI (the agencies for irrigation development in the Casamance region), and SODEFITEX (the cotton development agency).

In 1987 and 1988 further progress was achieved and the reforms extended. Specifically, the following actions were implemented:

- The promotion of domestic cereals was supported by the weekly publication of the prices for the major crops in all important markets. The role of the CSA (Commissariat à la Securite Alimentaire) was reduced to managing the reserve stock of donated foodstuffs and to preventing excessive price fluctuations. Improved seed was propagated and a new extension program started. Although the consumer price of 100 percent broken rice was reduced from CFAF 160/kg to 130/kg after the elections of 1988, a sufficient margin remained to encourage local rice and cereals production.

- In the groundnut sector, the farmgate price was reduced from CFAF 90/kg to 70/kg unshelled peanuts, SONACOS' operations streamlined to reduce processing costs, and an external management audit initiated.

- Fertilizer subsidies were further reduced, with 1988/89 being the last year with any subsidy (CFAF 8/kg). The import of mixed fertilizers was completely decontrolled.

- The Ministry of Rural Development was reorganized, and the role of the public agencies in agricultural development was redefined.

- Meat prices were decontrolled, and SERAS's monopoly on the hide and skin trade was eliminated.

C. Key Sector Issues

With all this progress, however, serious problems remain. Foremost among them is the need for a coherent pricing policy for the principal crops, especially groundnuts, cotton and rice. This policy has to be consistent with the GOS's goal of 80 percent food self-sufficiency by the year 2000. This would mean stimulating domestic rice and cereals production through the private sector, and reducing rice and wheat imports at a rate faster than population growth and shifts in consumption habits due to urbanization. An effective farm credit policy remains to be drafted, with emphasis on local control of credit and responsibility for repayment. Furthermore, the decentralization and privatization of the CNCA (Caisse Nationale de Credit Agricole) remain to be done.

Another key policy area is agricultural diversification, such as the growing of specialty nuts for export and the development of horticulture. Furthermore, the development of the Senegal River Valley, land tenure, livestock marketing, and the raising of agricultural productivity remain issues to be addressed. In addition, long-standing problems need to be addressed, such as: maintaining soil fertility, stemming salinization, counteracting desertification, controlling locusts, protecting forests and watersheds, and in general preserving the rural habitat to slow down rural emigration to the towns.

V. EVALUATION ISSUES

A. Rice Import Privatization and Marketing Liberalization

Background

The privatization of importation and domestic marketing of rice, both imported and locally produced, figured prominently in the conditionality of ESF IV. The operation of a state monopoly, the Caisse de Perequation et de Stabilisation des Prix (CPSP), was considered to be contrary to efficient importing and marketing of rice with scope for substantial improvement in a private sector context. USAID had financed several studies of the rice sector, including CPSP's handling of rice imports. Given the extensive use of rice sales as a means of providing patronage to powerful interest groups, privatization was, in USAID's judgement, the most effective way to improve the situation. Specifically, privatization was thought to "depoliticize" the price of rice and to induce the GOS to make regular price adjustments to insure that rice imports would remain profitable. Furthermore, privatization would favor local coarse grain cereals with rising rice prices and would provide the GOS with substantial revenues because of the differential between the rice import costs and domestic sales prices. Also, it fit the GOS-announced policy of withdrawing from direct interference in economic activity. These judgments were reinforced by the fact that the CPSP had accumulated sizeable arrears to the GOS and private banks and was thus seen as an obstacle to fiscal reform and transparency in financial relations between the GOS and the economy. Settlement of these arrears was considered a precondition to the transition from the CPSP monopoly in the rice trade to a private sector mechanism which was presumed to be more efficient. ESF IV, therefore, emphasized the reorganization of the imported rice sector and, as conditions precedent to the first disbursement, specified the payment of CFAF 5 billion in arrears on custom duties, CFAF 500 million on price compensation, and CFAF 400 million on credit sales made in 1983 and 1984.

For the second and third tranche releases, ESF IV conditionality specified a policy announcement by February 1986, that Senegal would:

- liberalize internal distribution of imported broken rice beginning in July 1986 through the elimination of the existing quota system for wholesalers;

- progressively privatize rice import operations;
- obtain a final reconciliation of the CPSP's accounts by April 1986 to facilitate the transfer of rice imports to private traders, and
- ensure that the CPSP would have paid a cumulative total of CFAF 10 billion in customs duties and CFAF 400 million in arrears on earlier credit sales by July 1986.

Moreover, a mechanism to manage the GOS's security-regulating stock was to be introduced by July 1986 and a reduction was to be made in CPSP's personnel. It was further envisaged that rice imports would also be handled by SONADIS in addition to the private sector.

Findings

As agreed, the domestic distribution of rice was transferred to the private sector so that any trader now can buy broken rice from the CPSP in quantities of at least 10 MT for sale within Senegal (with no discount for large purchases). The fixed retail price, however, was retained. It now varies only from CFAF 130/kg in the Dakar region to CFAF 135/kg in remote areas, with the transport differential (about CFAF 500 million per year) absorbed by the CPSP. Therefore, the internal rice marketing system now has only a small scope for competition.

Regarding import privatization, an announcement was made in February 1986 that a new import system would be in effect in July 1986. However, a new import system with an effective date of December 1986 was not announced until September 1986. The system did not provide for the transfer of the responsibility for all rice imports to the private sector, but only for 85,000 MT (about one third of the 1987 imports of 252,000 MT) as a test of its ability to provide a reliable system of imports. A security stock of 60,000 MT of imported broken rice was set up by CPSP, but no reduction in personnel was effected.

The partial privatization of rice imports by CPSP quotas allotted to private importers did not prove to be conclusive as to the private sector's ability to assure a reliable supply of rice. Problems were encountered. Shipments did not arrive on time; price compensation calculations proved to be difficult; the quality of rice purchased was sometimes judged to be below standard; and a longer time was required to collect the import differential because the private traders first had to sell the rice. Some fraud was also involved.

Originally the concept was that, beginning in April 1986, SONADIS would import 140,000 MT (60,000 MT as a security stock and 80,000 MT for sale), while the private sector would import 200,000 MT. After reflection, any import role for SONADIS was rejected, and in the end the private sector imported 83,000 MT; the CPSP had to assume some of the contracts. Nevertheless, the GOS proposed to increase the private sector share of imports to 50 percent for the following year. Instead, the committee of aid donors reviewing the experiment early in 1987 recommended returning the entire responsibility for importing broken rice to the CPSP. The GOS accepted that recommendation and since then the CPSP again has had the monopoly on all imports of broken rice. In 1987, the World Bank agreed to do a study on how to set up a workable system, but nothing has been done. Rice import privatization is not being pursued by the World Bank at this time and no further action on this issue is currently planned, as CPSP operations on rice imports are considered satisfactory.

All requirements regarding the settlement of arrears by the CPSP were satisfied.

In sum, the ESF IV policy objective of rice import privatization has not been attained. The GOS considers its control over rice imports a key factor of its economic policy which it has not been prepared to release to the private sector. The rice import issue also has a political dimension. With a domestic producer price of CFAF 85/kg paddy at farmgate and with a privatized rice import trade, the compensation system managed by the CPSP would have had to be replaced by (1) an import duty of about 45 percent and (2) an open subsidy to the rice millers to safeguard the protection of local rice and coarse cereals production because of the CFAF's overvaluation. The introduction of such a tariff would have had to be approved by the National Assembly in which the political opposition undoubtedly would have tried to embarrass the GOS, as well as on TV and through the press, for trying "to profit" to such an extent from a national staple food such as rice.

It has been much easier for the GOS to collect the import benefit through the price compensation system than to replace it with a flexible, but rather high and visible import duty. Aside from the political issues, the GOS argues that CPSP's purchases on the international market (especially from Thailand, Burma and Pakistan) in ship loads are more efficient and result in lower prices than would be the case if private traders purchased in smaller lots. For this reason, Senegal reportedly has been purchasing rice at a lower cost than the Gambia.

In the context of its new agricultural policy, the GOS aims at 80 percent food self-sufficiency by the year 2000 (compared to about 55 percent now). This implies a gradual expansion of domestic rice production, among other cereals, and a reduction of

rice imports. However, with the present system of a fixed consumer price of CFAF 130/kg brokens and a fixed producer price of CFAF 85/kg paddy, which it wants to maintain, the GOS faces an increasing financial burden as domestic production expands and the volume of cheaper imported rice is reduced. In fact, the GOS's agricultural plan foresees an expansion of rice cultivation of 5,000 ha/year, which with double cropping on irrigated land, particularly in the Fleuve region, would mean at least an additional 10,000 MT of polished rice. The GOS expects that with a higher volume of paddy and reduced operating costs, the regional rural development agencies (such as SAED, SODAGRI and SODEFITEX) will reduce their burden on it.

A market differentiation campaign also is to be promoted which would leave intact the fixed consumer price for the lowest quality 100 percent brokens for the time being, but let the market set the prices for higher qualities, including 25 percent, 10 percent and 5 percent brokens, and whole rice.

The importation and domestic marketing of whole rice already are left to the private trade, and prices are left to the market (with consumption reaching an estimated 30,000 MT/year and the top quality rice selling for up to CFAF 250/kg). As domestic producers are encouraged to produce for the upgrade market, the demand for CPSP's subsidy will be correspondingly reduced. SAED, the principal rice producer, unfortunately, mills only 100 percent broken rice with its deteriorated equipment, but with the recommended privatization of its mills the new private owners may in time upgrade and expand the plants to meet the milling needs of the Fleuve region. The CPSP has proposed a study to determine the demand for higher quality rice.

Other than this cost reduction and market differentiation for higher quality rice, the GOS has no plans to face the financial implications of expanded domestic production and reduced imports of rice on the maintenance of the current producer and consumer prices. In fact, the profit from the sale of imported rice is likely to be only CFAF 2 to 3 billion in 1989 with a world market price of about $260/MT (c&f Dakar) and an exchange rate of CFAF 320/$. In recent months the international price has been climbing to some $280/MT, a level the CPSP expects to hold steady for the rest of 1989. As the harvest is collected early next year, it may drop somewhat, but later in 1990 it could rise again to about $295/MT because India and China may make large purchases. According to the CPSP, the price compensation profit from rice imports disappears at about $300/MT and CFAF 320/$. In the opinion of the CPSP, the GOS would then have to review the maintenance of the CFAF 130/kg consumer price in the light of domestic production and world market outlooks.

A sustainable long-range rice price policy, according to USAID experts, would have the following elements: liberalization

of prices for imported and local cereals, with the consumer prices tied directly to the world market prices and the local producers of rice competing directly against imports without any GOS subsidy. As long as the CFAF remains overvalued, there would have to be a tax on imported rice, which currently would have to be about 45 percent. The consumer prices in every locality would fully reflect transportation costs without any subsidy (currently the CPSP absorbs about CFAF 500 million in transport costs).

A sound rice pricing policy is being pursued in the World Bank/Caisse Centrale pour la Coopération Economique (CCCE) agricultural sector adjustment loan, currently under negotiation with the GOS. USAID may also support this policy with a three-year $20 million DFA grant. The immediate goal is to effect a consumer price increase to protect the domestic rice growing and coarse grain cereals plan while at the same time increasing CPSP receipts. A link would be established between the world market price, on one hand, and the domestic consumer and producer prices, on the other. The transport subsidy for domestic distribution would be abolished. Paddy purchases by SAED would be restricted in favor of the private sector and its rice mills would be sold as soon as possible.

Conclusions

The ESF IV conditionality to privatize rice imports and replace the price compensation system with fiscal measures was not successful, as CPSP still has the import monopoly on 100 percent brokens and the price compensation system is still in effect. However, USAID's efforts have nevertheless been successful in clearing up the CPSP's arrears and turning it into an efficient operation. Regarding the price compensation system, the changes desired in ESF IV were too drastic for the GOS to carry out in its political context--especially the problem of replacing price compensation with an import tax. Moreover, it is not clear from a commercial and economic point of view that import privatization would bring about advantages on which the GOS could rely, such as lower cost, more competitive pricing of import and domestic marketing and other services, etc. To the contrary, from GOS's point of view, rice supply reliability would be endangered, pricing would be subjected to greater uncertainty, and unnecessary political problems would be created.

Regarding internal marketing, ESF IV's conditionality did bring about reform in that the allocation system to favored wholesalers was abandoned. The domestic rice trade is now in private hands with free access to any dealer willing to purchase at least 10 MT for cash, although the GOS still sets the retail

price for 100 percent brokens and allows only a CFAF 5/kg regional differentiation.

As to the price compensation system as such, with a fixed purchase price for paddy and a fixed retail price for brokens, it is unrealistic to expect the GOS to change its position as long as the CFAF remains overvalued. In the present context, the steps planned in the GOS's cereals plan, as modified by the World Bank/CCCE agricultural sector adjustment loan, probably contain most of what can be realized. The principal worries are (1) GOS inaction, for political reasons, should the rice import costs turn the current slim import profit into a deficit (which would mean a consumption subsidy); or (2) the overall financial result of the entire rice sector turning into a loss because of expanding domestic production and shrinking imports with the present fixed prices. The repercussions on the GOS treasury could then quickly become severe.

B. Phasing Out Price Compensation

Background

Phasing out price compensation (perequation des prix) figured prominently as a policy reform goal in ESF IV. Specifically, conditions precedent to the first disbursement were:

- the removal of the groundnut sector from the CPSP as a step toward the elimination of price compensation on exported groundnut products;
- the elimination of price compensation on domestically consumed vegetable oil and the linkage of the consumer price for vegetable oil to international price fluctuations;
- an export tax on groundnut products and import duties on edible oils.

Establishment of a plan for phasing out fixed consumer prices for export crops (groundnut products and cotton) and the completion of a study on the feasibility of replacing price compensation with fiscal instruments were conditions precedent for the second and third disbursements.

The reason for concentrating on this far-ranging policy reform, as stated in the ESF IV PAAD, is the judgement that Senegal's improved economic performance will require changes in the price-setting mechanism. The practice of setting fixed

prices for purchasing agricultural crops, on one hand, and sale prices for consumer staples and certain other strategic goods, on the other, had caused major distortions in the economy, promoted clandestine imports, and led to unsustainable deficits for the CPSP. In coordination with the World Bank's SAL II, USAID decided to concentrate on introducing market flexibility into the Senegalese economy with the goal of reducing the fiscal burden of the fixed price system.

Findings

The evolution of the financial results of Senegal's price compensation system from 1984 until now is summarized in Table 1. The most prominent figures deal with the groundnut operations and the rice imports. If the figures as presented are correct (and they are subject to verification) the export operations on groundnut products produced staggering deficits between 1986 and 1988, with compensation losses increasing from CFAF 11 billion in 1986 to CFAF 22 billion in 1987 and CFAF 31 billion in 1988. (Note: According to the Director General of SONACOS, the 1988 loss represented a subsidization of only 35 percent, compared to EEC's subsidization of competing edible oils of 65 percent.) For 1989, however, SONACOS expected the sector to be in approximate balance because of the decrease in the producer purchase price of peanuts from CFAF 90/kg to 70/kg. This reduction was announced on May 1, 1988, and took effect with the 1988/89 crop year (which started in November 1988), reducing the quantity harvested, and increasing the international prices for groundnut oil. Whether such an equilibrium will in fact be attained remains to be seen. At any rate, according to the current IMF ESAF, the allowable deficit is CFAF 5 billion for the 1988/89 crop year.

It should be noted that the world market price for peanut oil was $753/MT in April 1989 compared to an average of $590/MT in 1988, per June 1989 IFS. Marches Tropicaux (June 23, 1989) reports the June 1989 price for West African peanut oil was French francs 610/100 kg, compared to French francs 390/100 kg a year earlier, representing a 58 percent increase. According to Marches Tropicaux, this price is likely to increase further in the near future because consumption has increased from 2.9 million MT in 1987/88 to 3.4 million MT in 1988/89.

Regarding seed distribution costs, the GOS has steadily reduced its support, a condition in the World Bank's SAL II, and effectively moved the seed costs to the farmers. SONACOS' selected seed stock has been progressively reduced from 120,000 MT in 1984 to only 19,000 MT in 1989 (the purchase goal for 1989 was 25,000 MT). Apparently the farmers are now storing their own seed. They can purchase selected seed from SONACOS at CFAF 110/kg, a price representing a subsidy of approximately one

TABLE 1 SENEGAL: FINANCIAL RESULTS OF PRICE COMPENSATION, 1984-1989
(Millions of CFAF)

	1984	1985	1986	1987	1988 (prel)	1989 (est)
A. EDIBLE OILS (CPSP/SONACOS)						
Seed distribution costs[1]	-7,000	-4000	-2,500	-1,000	-500	-350
Groundnut products exported[2]	4,100	-1,300	-11,000	-22,000	-31,000	-0-
Edible oils imported[3]	-3,200	-100	6,000	-	-	2,000
TOTAL A:	-6,100	-5,400	-7,500	-23,000	-31,500	1,650
B. OTHER PRODUCTS (CPSP)						
Cotton exported	2,000	3,300	-	-	1,500	-2,600
Cotton sold to domestic textile mills	-300	-	-3,100	-2,300		
Rice imported	-	8,400	21,500[4]	16,800[5]	6,300	2,400
Rice domestically produced	-1,300	-	-	-800	-1,300	-1,200
Wheat imported	-200	-1,500	2,400	5,300	2,500	-0-
Sugar	-	-2,900	-6,000	-2,500	-900	-1,000
Taxes collected	300	2,400	300	2,400	N/A	N/A
Operating costs and capital expenditures	-1,500	-600	-600	-200	-300	-300
Agricultural program	-1,600	-300	-300	-300	-350	-350
TOTAL B:	-2,600	8,800	14,200	18,400	4,450	-3,050
TOTAL A & B:	-8,700	3,400	6,700	-4,600	-27,050	-1,400

[1] SONACOS.
[2] CPSP until 1985, SONACOS thereafter.
[3] CPSP until 1984, SONACOS thereafter.
[4] CPSP corrects this figure to 6,300 (7/18/89).
[5] CPSP corrects this figure to 5,600 (7/18/89).

Sources: 1. International Monetary Fund, Statistical Annex, SM/88/248, based on CPSP data for A, 1984-1986, and for B, 1984-1987.
2. SONACOS for A, 1987-1989.
3. CPSP for B, 1988 and 1989 (interview 7/18/89).

third, which costs the GOS about CFAF 350 million. The seed distribution burden, which cost the GOS CFAF 7 billion in 1984, will be entirely eliminated beginning with the 1989/90 crop year.

With respect to edible oil imports for domestic consumption, on which a profit of CFAF 6 billion was realized in 1986, SONACOS plans to import 15,000 MT of rapeseed oil in the second half of 1989, on which it expects to realize a profit of CFAF 2 billion. To maximize its returns, SONACOS imports edible oil only when it can sell all its peanut oil stocks on the international market and purchase lower-cost edible oils for domestic consumption. No imports of edible oils were made in 1987 and 1988 when international prices were low and the entire domestic demand was satisfied with local oil.

Regarding the domestic retail price of peanut oil, the GOS allows SONACOS to charge a price covering the fixed producer purchase price, processing costs, and a 7 percent profit. The retail price of imported vegetable oil is aligned to that of peanut oil, hence the profit potential.

Looking to the future, the Director General of SONACOS expects the domestic demand gradually to absorb the entire production of peanut oil. About 70,000 MT of peanut oil already are consumed domestically, out of a production of 130,000 to 150,000 MT. (The harvest is now 400,000 to 450,000 MT of uncrushed peanuts.) He said the local consumption was increasing by 5 to 6 percent a year, which would mean a doubling of consumption in about 12 to 14 years. By the year 2000, practically all of Senegal's peanut oil production would be domestically consumed. The reason is not only the population increase in excess of 3 percent/year, but also urbanization which brings with it a shift in eating habits, from millet/sorghum to rice. Millet/sorghum consumption requires no oil, but rice apparently does. Per capita consumption of oil is 12 to 13 kg/year in urban areas compared to only 4 to 5 kg/year in the countryside.

In summary, the important edible oil sector is expected to show a modest surplus in 1989 and, therefore, will not present a fiscal burden as it did in 1988. As to the international price in the next few years, the Director General of SONACOS expects demand to hold steady and the price to increase more or less in proportion to reductions of EEC (and other) subsidies on competing edible oils.

Turning to the CPSP, the loss on exported cotton and that sold to domestic textile mills, which compete with imported cotton fabrics, was listed as CFAF 1.5 billion in 1988 and is expected to reach CFAF 2.6 billion in 1989.

For imported 100 percent broken rice, the large profits of CFAF 21.5 billion in 1986 and CFAF 16.8 billion in 1987, as listed by the IMF, were reported by the CPSP as having been only CFAF 6.3 billion and CFAF 5.6 billion, respectively. For 1988 the CPSP reported a profit of CFAF 6.3 billion, but for 1989 only CFAF 2.4 billion of profits are expected. The price compensation loss on domestically produced rice was CFAF 1.3 billion in 1988 and is estimated at CFAF 1.2 billion in 1989.

For imported wheat, profits of CFAF 5.3 billion were registered in 1987, but only CFAF 2.5 billion in 1988. With higher wheat import costs and unchanged controlled bread retail prices, the CPSP expects the profit to disappear entirely in 1989.

Regarding sugar, the operating subsidy to the CSS was eliminated in 1988, but there remains a subsidy to domestic industrial users of sugar, who compete with imports (especially sweetened condensed milk). This subsidy was CFAF 900 million in 1988 and is estimated to reach CFAF 1 billion in 1989.

Regarding taxes collected, no information was available from the CPSP for 1988 and 1989 corresponding to the figures published by the IMF for earlier years.

If the figures in Table 1 are correct, then the substantial loss of about CFAF 27 billion in 1988 from price compensation will have vanished in 1989 or even turned into a small profit. Such a result depends largely on the international price trend for peanut oil.

Conclusions

As with the policy goal of changing the rice import system, the policy objective was not attained of replacing price compensation with import duties and export taxes for export products (groundnuts and cotton) and staple imports (rice and wheat). The reasons are the same: The GOS is not prepared to give up a tested system that, from its point of view, "works" for one that may not work and, in addition, creates many political problems. Furthermore, with the evolution of world market prices in 1989, particularly with respect to groundnut oil, the fiscal impact of the price compensation system may even turn out to be slightly positive. The fact remains, however, that as long as the CFAF is overvalued, the GOS is unlikely to allow any dismantling of its price compensation system. There is progress nevertheless. The entire cotton sector (production, processing, exporting and domestic transformation) will be severed from CPSP's support.

The World Bank/CCCE's agricultural sector adjustment loan contains no policy objective which aims at phasing out the price compensation system as such, only the goal of aligning periodically adjusted producer and consumer prices closer to world market prices. With respect to groundnuts, the goal is to reduce the producer price to a level in line with world market prices and then to pay the farmer a bonus or dividend after the crop-sales season. The latter would be based on the overall financial results of the entire sector, which would reflect SONACOS' oil pressing, processing and marketing efficiency.

C. Raising the Efficiency of Agro-Industry: Reducing the Fiscal Burden

Background

In the design of the ESF IV conditionality, the impact of the export agro-industries at the macro-economic level and on farmers' decisions regarding whether to plant cereals or export crops was recognized as strategic for the country's economic performance and particularly for fiscal and balance of payment trends. Export agro-industries influenced the amount and composition of credit available to the economy and weighed heavily on the public finances because of the GOS system of subsidy payments. The groundnut sector has been the most important factor among agro-industries. IMF, World Bank and USAID pressure was instrumental in inducing agro-industries to pay back in full any outstanding crop credit by March 1985, for the first time since 1978. These repayments improved the ability of the banks to extend new credits to the agricultural sector.

Massive subsidies to the export crop sector favored the planting of export crops to the detriment of food crops. The policy objectives aimed at improving the efficiency of the agro-industries, so as to reduce or eliminate their dependence on subsidies. The conditionality also aimed at ensuring that the agro-industries did not simply compensate for the loss of subsidies by accumulating new arrears on the reimbursement of crop credit.

Another element was the removal of excess capacity to reduce costs and thereby increase efficiency, especially by the groundnut processors. To the same end, the conditionality also required an independent detailed audit of SONACOS' processing and management units and a cost-efficient means of managing the security seed stock. ESF IV conditionality also specified an

action plan to encourage private sector agro-industries in the Senegal River Valley.

Findings

The outstanding success of the ESF IV conditionality regarding the agro-industries is the repayment of arrears on crop credits. The initiation of audits and management studies of SONACOS, CSS (sugar) and others was also useful eventually in increasing the efficiency of these industries. However, the desired success in eliminating subsidies, especially in the groundnut sector, has not been achieved. Whether the price compensation system is operated only by CPSP for all sectors, or whether SONACOS is responsible for the groundnut sector and CPSP for the others, is of little consequence. The fundamental problem of fixed producer prices in an environment of widely-fluctuating international market prices remains unsolved, and the price compensation system is still in operation for groundnuts and rice, as was discussed in the previous section.

Considerable progress has been achieved in improving the efficiency of the various agro-industries. SONACOS has reduced its processing and distribution losses from 7 percent to 2 percent since 1984. The number of collection points has been reduced from 1,700 to 750, and processing costs were reduced below CFAF 18/kg in the 1988/89 crop year compared to over CFAF 20/kg two years earlier. Further substantial cost reductions are possible, especially with the closing of one or two of the four industrial pressing plants. (Excess capacity of the plants is about 40 percent, which means that the high fixed costs of operating all four plants at only about 60 percent is unnecessarily costly.) However, since this would mean a further reduction in SONACOS's workforce--currently 1,900 permanent and 700 seasonal workers--and closing of the principal industrial activity in the affected areas, the GOS has not yet given its approval, for political reasons, for SONACOS to proceed. Moreover, the issue of the debt to the CCCE for the latest plant remains unresolved. Other actions under consideration include the privatization of SEPFA, the processor and seller of edible peanuts.

Regarding fertilizers, ESF IV required that the GOS not establish a state credit program for fertilizers outside those already in operation, that is, those for SAED, SODEFITEX, SODEVA and SOMIVAC. USAID's concern was that once credit was given for fertilizer, repayment would probably never occur. To encourage the private sector to develop a fertilizer distribution system, which would operate on a cash basis, the CCCE and USAID financed a subsidy program with a decreasing level of support, from CFAF 24/kg in 1986/87 to CFAF 8/kg in 1988/89 to complete elimination

of the subsidy beginning with the 1989/90 crop season. This program is on track, although the GOS is concerned about the regular and timely supply of fertilizers through private channels and the apparent reduction in fertilizer use with the elimination of the subsidy. USAID also financed a study on the "Fertilizer Subsidy Program" which was completed on March 23, 1989, by Mayoro Wade of Price Waterhouse. Since the supply network is not yet firmly established and fertilizer availability not fully assured in consumption areas, the study recommends, inter alia, continued subsidization for two years, credit sales at preferential interest rates and promotional efforts.

The GOS now desires donor support for assuring a dependable supply of fertilizers. The World Bank/CCCE agricultural sector adjustment loan may support a medium-term program to restore soil fertility, particularly in the peanut basin, with extension and regional adaptation of fertilizer use, but will not support ordinary, annual fertilizer use, which is to be left to the private sector. A study is to be undertaken on the availability, prices, and sales conditions for fertilizers, and to determine what additional action may be required, if any.

In regard to the rice production sector, which has already been discussed in a previous section, important goals are privatization and reduction of the processing costs of the SAED, so that the rice produced for the expanding acreage under irrigation in the Fleuve region can be sold as higher quality rice, not only as 100 percent brokens, and thereby fall outside the fixed retail price. The World Bank/CCCE agricultural sector adjustment loan proposes a periodically adjusted retail price (currently CFAF 130/kg-135/kg) providing protection at about 45 percent for local cereals, including rice, and also a more flexible paddy producer price which takes into account the imported rice price, income trends of rice growers, and the relative prices of locally produced coarse grain cereals. It should be noted that the latter no longer benefit from a fixed producer price, although the CSA buys and sells local cereals within a certain price range, CFAF 55/kg-85/kg.

Regarding the condition in ESF IV of encouraging private sector agro-industry in the Senegal River Valley, a preliminary study by SONED was completed in June 1989. It makes a number of recommendations, such as: better control of paddy quality delivered to the rice mills; the privatization of SAED's mills; installation of additional milling capacity by private millers; reorganization of the channels of distribution and marketing of rice by private millers, transporters and traders; and a reduced role for CPSP and SAED, aside from a number of technical suggestions. A more extensive study, "Privatization and the Development of the Private Sector in the Senegal River Valley," by Michael P. McLindon, Louis Berger International, Inc., also dated June 1989, contains proposals for a detailed GOS action

plan on the development of the entire Senegal River Valley, and in particular on the privatization of SAED, as a step in removing obstacles and accelerating the development pace in the region. This action plan also covers the need for a clearly defined GOS rice price policy to enable the private sector to make business and investment decisions accordingly. Action on land tenure, credit and railroad tariffs is also recommended.

The GOS has not yet prepared an action plan as called for in ESF IV. However, the World Bank/CCCE agricultural sector adjustment loan calls for the GOS to define a price policy with respect to paddy and the consumer price for imported brokens, and action on cost reductions by the state enterprises operating in the Fleuve area to encourage profitable rice growing in the Senegal River Valley. Specifically, such a policy would include: a reduction of the paddy purchase price; a limit to the quantities purchased at the guaranteed price; reductions in the scope of SAED's operations and market intervention, and, particularly, the privatization of all of SAED's paddy collection, transport and milling operations.

Regarding the cotton sector, which had a loss of about CFAF 1.5 billion in 1988 and an estimated loss of CFAF 2.6 billion for 1989, the principal goal is a reduction of production costs by reaching a higher ginning yield, better quality output, reduction of fertilizer and insecticide subsidies, and other cost-cutting steps. The producer price would be adjusted flexibly by linking it to world market trends, but still allowing the farmer a minimal income, to be supplemented by a bonus or dividends paid after the crop/sales season and dependent upon the overall financial result of the cotton sector. With low world market prices, there still may be a need to provide some subsidization to the growers and SODEFITEX, the processing company, given the CFAF's overvaluation. However, the expectation is that with improved performance and a somewhat expanded production volume (to reduce the impact of the fixed costs of the ginning mills), the sector's deficit can be eliminated in two years. Production costs are to be reduced from CFAF 600/kg to as close to CFAF 475/kg as possible. At any rate, beginning with the 1989/90 crop season, cotton will no longer be supported by the CPSP.

Regarding the sugar sector, ESF V required an audit of the CSS, the private sugar processing and distribution company which, under a special agreement with the GOS, has a monopoly on sugar production, importing, refining and sales in Senegal. The domestic sugar retail price, specified by the GOS, is about three times the world market price. Under its agreement with the GOS, the CSS was entitled to a subsidy covering its high production costs. This subsidy, which cost the CPSP some CFAF 6 billion in 1986, was ended in November 1987. Substantial cost-saving measures reportedly have permitted a reduction in the sugar retail price, especially as a result of the study of the sugar

sector and the audit of CSS completed by Louis Berger International in June 1987. The World Bank/CCCE agricultural sector adjustment loan specifies a renegotiation of the agreement between the GOS and CSS to determine sugar prices with a view to encouraging the CSS to realize maximum cost savings, to terminate its exoneration from import taxes, and to remove sugar purchased in Senegal by food processing industries (especially sweet canned milk) from the CPSP subsidy. The justification for this subsidy, which cost the CPSP about CFAF 1 billion a year, was that domestic food processors faced competition from cheaper imports with a sugar component purchased at international/subsidized prices; the CSS refuses to lower its price to industrial producers on its own.

Conclusions

An analysis of the conditionality on increasing the efficiency of agro-industries discloses that the results over time have differed from what the designers of this conditionality had expected. This conditionality was in fact closely related to the one discussed in the previous section; that is, phasing out the price compensation system. Removal of subsidies to SONACOS, for example, is simply one element of phasing out the price compensation system. As discussed previously, the GOS was not willing to abandon its system and, given the overvaluation of the CFA, could not simply reduce the fixed farm price for peanuts and rice without seriously affecting the farmer's incentive to produce. The conditionalities on the repayment of crop credits, the audits and management reviews of SONACOS and CSS, and the elimination of the fertilizer subsidy were successful and have brought lasting improvements.

In some ways, it has taken several years for the underlying purposes of the conditionality to bring fruit; namely, to transform the agro-industries into efficient units no longer operating in an environment of GOS subsidization of whatever operating result that may occur. The continuation of the conditionality on increasing the efficiency of the agro-industries in the World Bank/CCCE's agricultural sector adjustment credit is testimony to the correctness of the choice of this factor. Full success, however, is years away and may not be reached until the CFA is devalued.

D. Increasing Coarse Grain Cereal Consumption: Reducing Rice Imports

Background

ESF V specified in its conditionality that the GOS conduct several studies related to the reduction of rice imports. To satisfy this conditionality, two studies were completed: "Study on Measures to Reduce Rice Imports and Definition of a Fiscal Mechanism to Replace the Price Compensation System on Rice," by Fallou Dieye, completed in November 1987; and "Implications for Cereals Policy of Adjusting the Producer Price for Peanuts to Fluctuations in World Prices," by Papa Sall. A related study, by Mbaye Mbaron Gassama et al., treated the "Harmonization of the Producer and Consumer Prices of Rice between Senegal and the Gambia."

The population of Senegal consumes annually about 1.2 million MT of cereals (wheat flour equivalent), of which about 55 percent is produced locally (wheat, sorghum, rice, maize and manioc), and the rest imported (rice and wheat). In its new agricultural policy, the GOS established a target of 80 percent self-sufficiency by the year 2000, as well as a limit of 340,000 MT of rice imports. From a soil resource and climatic point of view, these goals are attainable except in drought years, according to expert opinion, even with Senegal's rapidly expanding population. However, they would impose difficult choices for farmers in many areas between the planting of export crops (peanuts and cotton) versus food crops. The farmers are likely to make their choices on the basis of the relative crop prices they expect to receive and the cost and ease of cultivation of each crop, after they have secured their own food requirements. Reducing rice imports in the face of increasing demand from population growth and urbanization requires either substitution of coarse grain cereals for rice or increased domestic rice production.

Findings

Senegal's food production and imports over the last six years are shown in Table 2. Production of food crops shows considerable variation from year to year (1985/86 was a bumper crop year and 1987/88 was good also) as a result of rainfall and its distribution. Policy changes in producer prices and shifting of costs to the farmers probably had relatively little influence. Since the 1988/89 crop season all prices are free, except for rice, although the CSA intervenes by buying and selling in local markets within a certain range (CFAF 55/kg-85/kg) around the

TABLE 2 SENEGAL: FOOD PRODUCTION AND IMPORTS, 1983 - 1989

	1983/84 PRODUCTION	1984 IMPORTS	1984/85 PRODUCTION	1985 IMPORTS	1985/86 PRODUCTION	1986 IMPORTS	1986/87 PRODUCTION	1987 IMPORTS	1987/87 PRODUCTION	1988 IMPORTS	1988/89 est PRODUCTION	1989 est IMPORTS
MILLET/SORGHUM												
1000 MT	332.0		471.4		950.0		633.8		801.3		594.0	
Producer Price (CFAF/kg)	55.0		60.0		70.0		70.0		70.0		free market[4]	
RICE												
1000 MT Paddy	109.7		135.8		147.5		142.8		135.8		146.4[5]	
Producer Price (CFAF/kg)	60.0		66.0		85.0		85.0		85.0		85.0[6]	
1000 MT milled (65%)	71.3	371.9	88.3	336.5	95.9	372.7	92.8	252.0	88.3	266.8	101.7	336.4
Import Cost (CFAF/kg)		92.0		81.0		51.0		46.0		75.0		105.0
Retail Price (CFAF/kg)	130		160[2]		160		160		130[3]		140	
WHEAT[1]												
1000 MT		111.9		132.2		110.2		101.3		108.2		110.0
										37.0		63.0
Import Cost (CFAF/kg)		78.0		85.0		70.0		29.0				
Bread Retail Price (400 gr. baguette)	110		100		145		115		115		115	
MAIZE												
1000 MT	61.5		98.5		147.0		107.9		113.6		123.3	
Producer Price (CFAF/kg)	50.0		60.0		70.0		70.0		70.0		free market	
NIEBE (COWPEAS)												
1000 MT	12.9		15.8		90.0		54.9		28.6		17.3	
Producer Price (CFAF/Kg)	43.0		60.0		110.0		110.0		110.0		free market	
CASSAVA												
1000 MT	46.0		50.0		31.0		75.0		52.9		54.7	

1 Wheat imports and costs 1984 - 1989 from CPSP, 7/18/89, includes Canadian wheat donations to the CSA.
2 Retail price increased from CFAF 130 to 160/kg in January, 1985.
3 Retail price decreased from CFAF 160 to 130/kg in May, 1988.
4 Fixed producer price eliminated with 1988/1989, but CSA intervenes in market to sustain prices within a certain range (CFAF 55 - 85/kg).
5 Includes second crop of irrigated rice.
6 Fixed price of 85 CFAF/kg maintained for 189/90 season.

Sources: (1) 1983/84 - 1986/87: IMF Statistical Annex (SM/88/248), 11/9/88.
(2) 1987/88 - 1988/89: USAID based on MDR (Dir. Agriculture) and CPSP data.

previous fixed producer price of CFAF 70/kg for millet, sorghum and maize. According to the CSA, prices have been above CFAF 70/kg in 1989 except at harvest time, so that its intervention has been minimal. The effect of "price liberalization" on production cannot yet be determined. Paddy production has remained level over the last four years, with a dip in 1987/88.

Production of niebe (cowpeas) has been disappointing. After a jump to 80,000 MT in 1985/86 as a result of a special campaign, it has dropped to 17,000 MT, approximately the 1984/85 level. Although niebe promises to be an excellent food crop, its storage, processing and marketing first must be developed. Without a reasonably assured market, the farmer is unlikely to increase niebe planting.

Overall, the record shows that food production has been more or less level over the last three years, after the jump in 1985/86, but rice imports were down substantially in 1987 and 1988. For 1989, however, they are up again, just under the 340,000 MT import limit goal. (Reportedly there is now practically no clandestine rice importing from the Gambia.) With this record, it is evident that Senegal has not made any substantial progress over the last three years in reaching the goal of 80 percent food self-sufficiency by the year 2000.

Regarding the substitution of millet and sorghum for rice, it would be necessary to process them into a "rice-like" form so they can be used by the urban household as easily as rice. The World Bank's SAL III had a condition for trials of semi-artisanal and industrial processing of millet. These trials have had some limited success and are continuing. The World Bank/CCCE agricultural sector adjustment loan will support GOS plans to promote the processing of millet, sorghum and maize by small industrial plants. Once the technical problems have been solved, the main issues are cost, consumer price, and marketing. Presumably these "rice-like" products will have to have some advantage over rice, especially price, to make a dent in the demand for rice in urban households.

In another development, the Italians have promoted the artisanal production of "pamiblé," a French-style bread made from wheat flour mixed with 15 percent millet flour. The result is a tasty product, but apparently without a GOS decree for mandatory substitution, bakers are not generally adopting this practice. Furthermore, there would have to be a reliable supply of millet flour to them. The price of millet flour to the bakers reportedly is no problem.

Regarding the expansion of domestic rice production, USAID has financed a study on the "Milling and Marketing of Rice, a Preliminary Study of Privatization," by SONED, June 1989. It recommends the expansion of irrigated paddy production in the

Fleuve region by private growers and millers with a view to producing whole rice to the extent feasible, which fetches a price of up to CFAF 250/kg, instead of the 100 percent brokens, which have a fixed consumer price of CFAF 130/kg-135/kg.

Other recommendations of the SONED study are concerned with the privatization of SAED's rice mills, modernization of its operations, direct sales instead of passing through the channels of CPSP, etc., in the interest of reducing costs. Currently, CPSP pays SAED CFAF 179/kg for the milled rice (100 percent brokens) it sells to the wholesalers for CFAF 123/kg after incurring CFAF 5/kg in costs itself. That study shows clearly the considerable scope for cost reduction in the processing, sale, distribution and marketing of rice. At any rate, the GOS plans an annual expansion of 5,000 ha for irrigated paddy production (equivalent to perhaps 10,000 tons of milled rice with double cropping). To achieve this goal, considerable investment and donor support would be necessary, as well as institutional and marketing changes.

Conclusions

The policy objectives of increasing coarse grain cereals consumption and reducing rice imports in ESF V have been partially attained. Evidence suggests that so far there has been little substitution; rather, that rice consumption has continued to increase in line with population and urbanization trends. However, local rice production has expanded and, so far, the GOS has managed to limit annual rice imports to 340,000 tons, but apparently just barely in 1989. Nevertheless, efforts by USAID, the World Bank and other donors to process millet, sorghum and maize into "rice-substitutable" products appealing to urban consumers look promising, as does the substitution of up to 15 percent of millet for wheat flour in bread.

E. Maximizing GOS Receipts from Wheat Imports

Background

Bread has not been a traditional local staple, as wheat cannot be grown in Senegal. The French colonization of Senegal brought with it the introduction of French-style white bread in "baguette" form. As a result, bread has become a staple food, particularly among Senegal's urban population. It is unfortunate that with independence the consumption of the French-style white bread has not been discouraged by the GOS, as it is nutritionally

inferior to whole-wheat bread or other cereals and leaves Senegal import-dependent for about 10 percent of its food requirements (quite aside from the balance-of-payments implications). According to the best French/Senegalese tradition, the price of bread has been fixed by the GOS and is adjusted only infrequently, given the concern to satisfy the politically vocal urban population. As shown in Table 2, the retail price for a 400-gram "baguette" has remained unchanged at CFAF 115 over the last three years. Since the bread retail price is fixed, but wheat import costs vary, the GOS had to establish a price compensation scheme for wheat, which sometimes has meant a loss, but more frequently a profit, to the GOS (Table 3). In 1987, the profit was especially high at CFAF 5.3 billion due to a very low import cost of wheat with heavy USG subsidization (trade war with the EEC). This profit was reduced in 1988 to CFAF 2.5 billion as a result of higher wheat world market prices.

Special agreements with two millers, the Grands Moulins de Dakar (7/8 of wheat imports) and SENTENAC (1/8 of imports), allowed for a system of price compensation payments to the GOS or from the GOS to the millers, depending on wheat import costs, on the basis of assumed milling yields by the millers and reference prices of wheat costs. These costs were not very transparent, and reportedly left the millers with excessive profits, since actual milling efficiency and actual wheat import prices paid were not disclosed. Also, these agreements provided the millers with a profit margin, which was an incentive for them to buy expensive wheat. Furthermore, the millers were not bound to prompt payment of the price compensation profit, and could obtain additional financial returns with payment delays.

ESF VI contained conditionality which aimed at maximizing GOS receipts from wheat imports under the price compensation system in several ways: full payment of price compensation profits from wheat purchased in 1987 and 1988; the special agreements with the millers which were to be terminated before October 31, 1988; and new agreements negotiated before October 31, 1989. The new agreements, to be applicable to any wheat imports after that date, will call for: international tenders, with the lowest qualified bidder being awarded the contract; the basis for the price compensation profit to be the awarded contract prices; and any payments due the GOS to be made in 90 days. For the period November 1, 1988, through October 31, 1989, the reference price for calculating the price compensation profit is being based on the lowest world price quotations, taking into account all subsidies provided by exporting countries.

TABLE 3 SENEGAL: FINANCIAL RESULTS OF PRICE COMPENSATION ON WHEAT AND FLOUR 1979 - 1989

YEAR	GRANDS MOULINS DE DAKAR (GMD)	SENTENAC	TOTAL
1979	3,982,500	(70,325,211)	(66,342,711)
1980	347,584,475	(46,758,604)	300,825,871
1981	(696,326,352)	(249,599,891)	(945,926,243)
1982	434,030,309	(172,082,153)	261,948,156
1983	578,102,318	(55,162,817)	522,939,501
1984	(477,680,180)	(109,763,670)	(587,443,850)
1985	(1,377,335,964)	(315,291,503)	(1,692,627,467)
1986	2,763,774,437	178,625,140	2,942,399,577
1987	4,566,987,018	745,844,132	5,312,831,150
1988	2,117,703,440	425,167,058	2,542,870,498
1989 (est.)			0

Source: CPSP, 7/18/89

Findings

The GOS has, so far, honored all conditionality in ESF VI on the wheat import price compensation issue. It terminated the agreement with the millers on October 28, 1988. A new agreement with the millers is unlikely to be concluded much before October 31, 1989. The calculation of the price compensation reference price is not yet available. It remains to be seen whether the millers paid the lowest possible wheat import price during the interim year. If not, they would be liable to pay the difference to the GOS according to the formula specified in ESF VI. Furthermore, it remains to be seen whether the GOS is prepared to enforce the provisions in ESF VI with the millers. If the record of the past relationships is any guide, difficult negotiations may lie ahead.

In regard to the wheat import price compensation profit, the CPSP expects it to be zero for 1989 because of higher wheat import costs. As Table 4 shows, the import cost of CFAF 36,500/MT in 1988 compares to an estimated CFAF 62,500/MT for 1989. (In April 1989 the U.S. gulf price for wheat was $4.75/bushel compared to a 1988 average of $3.95/bushel, according to the IFS, June 1989.)

Conclusions

One of the most notable successes of the ESF program is the breaking of the murky relationship in ESF VI between the GOS and the millers which allowed the latter unreasonably high profits. (Naturally they in turn were obliged to accommodate the powers in being when called upon.) If the GOS respects the conditionality in ESF VI regarding the formula for determining the price compensation profit for 1988 and incorporates the new formula in its new agreements with the millers, major progress will have been achieved in creating transparency in the financial relationships between the GOS and the millers and in maximizing the financial return to the GOS from wheat imports.

Unfortunately, this potential success does not go to the heart of the problem, which is how to discourage bread consumption and reduce wheat imports in the interest of the 80 percent food self-sufficiency goal by the year 2000 and an improved balance of payments. With the acquired taste for French-style white bread, which is unquestionably a luxury item in the African context, it may be necessary to introduce a program of regular price increases for bread, at least annually, and in small steps, such as CFAF 10/baguette. A bread price increase is needed as there is likely to be no price compensation profit in 1989. Potential subsidization of bread consumption

TABLE 4 SENEGAL: WHEAT IMPORTS 1979 - 1989

YEAR	IMPORTS (MT)	CANADIAN GRANTS TO CSA (MT)	TOTAL (MT)	FOB (CFAF)	CAF (CFAF)
1979	107,328.116	6,965.894	114,294.010	-	-
1980	86,902.245	13,535.667	100,437.912	-	-
1981	85,820.700	21,120.099	106,940.799	56,364.29	60,411.76
1982	82,932.990	22,781.995	105,714.985	57,931.79	69,365.28
1983	78,859.950	41,103.819	119,963.769	61,157.00	71,866.76
1984	74,142.550	37,773.684	111,916.234	64,252.99	78,416.71
1985	97,364.889	34,884.330	132,249.219	68,667.02	84,500.00
1986	98,885.800	11,296.195	110,181.995	56,500.00	70,000.00
1987	76,779.195	24,514.920	101,294.115	40,500.00 19,231.00	49,763.00 EEC 28,231.00 U.S.
1988	101,134.540	7,015.985	108,150.525	N/A	36.500.00
1989 est	-	-	110,000.000	N/A	62,500.00

with a compensation loss due to still higher world wheat prices later on would be sheer folly.

Another way of reducing wheat imports is the mandatory substitution of up to 25 percent of wheat flour with millet flour in bread, as has been mentioned earlier. This would result in an immediate reduction of about 25,000 tons of wheat imports per year and give a boost to the milling of millet. A 5 percent increase in food self-sufficiency over a year or two and a balance of payments savings equivalent to a quarter of current wheat imports would be substantial results for one GOS decree. Another more gradual way to reduce wheat imports would be t introduce a retail price differentiation between pure wheat bread and that made from wheat and millet flour, with a more pronounced price difference over time.

F. General Issues

Program Management

In ESF I the Commercial Import Program (CIP) method of direct reimbursement of U.S. imports was chosen as the means for disbursement of the dollar grant. However, this method proved to be cumbersome and was abandoned with ESF II and all subsequent ESF's in favor of cash transfers because of the uncertainty and wide fluctuations of U.S. exports to Senegal. Based on the experience of the first three ESF's, the method of cash transfers was continued in ESF IV, V and VI. In all three instances, dollar funds were made available to the GOS in return for policy changes, as discussed in previous sections. After the conditions precedent have been met, tranche releases are converted to CFAF at the rate of exchange prevailing at the time of transfer for deposit to a special account at the central bank (the BCEAO). Disbursement in CFAF from this special account is then made by the GOS with USAID concurrence and for purposes jointly agreed upon by USAID and the GOS.

The dollars are transferred by the U.S. Treasury to the BCEAO's account with Citibank in New York. These dollars are then credited to Senegal's operations (foreign exchange) account with the BCEAO and thus flow into the foreign exchange pool of the West African Monetary Union (WAMU), which in turn is pooled with the foreign exchange of the entire French franc zone at the Bank of France. Since Senegal's balance in its operations account is heavily negative, as are those of most countries in the CFAF zone, any contribution from the U.S. or any other donor is certainly welcomed by the French.

Regarding the use of local currency, the GOS has employed the CFAF counterpart funds provided by A.I.D. primarily to meet its performance criteria under its Standby Agreements with the IMF. These are detailed in the GOS's table of financial operations (TOF). The GOS and USAID jointly select specific line items from the TOF 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.

According to this procedure, the CFAF counterpart funds of ESF IV, V, and the first tranche of ESF VI have reduced the GOS budget deficit. This has been accomplished by contributing to the financing of the payment by the GOS of its arrears to the private sector, one of the performance criteria in the TOF. Payment of GOS arrears serves to ease the liquidity position of private enterprises that do business with the GOS and then have to borrow from the banks to stay afloat until they are paid by the GOS. According to the ESF PAAD's, such use of ESF counterpart funds will have a positive impact on overall liquidity in the Senegalese economy.

The above procedures, dollar deposit and local currency use, are working satisfactorily with no disbursement and documentation problems. The procedures are simple, easily understood and function smoothly at all levels: A.I.D./Washington, BCEAO, USAID, and the GOS. (Table 5 shows ESF disbursements and local currency uses.)

Effectiveness of the Coordinating Committee

ESF V included a condition to the effect that the GOS and USAID will hold quarterly meetings with concerned ministries to discuss progress on agricultural reform and other aspects of structural adjustment, including the status of analysis and decisions related to structural adjustment measures proposed or being implemented.

In USAID's view, this procedure has been very useful, both to it and the GOS, in providing a regular, formal forum for high-level consultation and frank discussion on policy issues ranging from the consumer price of rice to the operating efficiency of SONACOS and CSS. It has permitted the U.S. to maintain pressure on the GOS for proceeding with difficult policy reforms and to undertake actions which are undoubtedly distasteful to the GOS, such as the termination of its special agreement with the millers on the international bidding procedures for wheat imports and the wheat price compensation calculations. USAID considers this procedure of holding quarterly or more frequent policy meetings with the GOS as a valuable and successful tool to influence GOS

TABLE 5 SENEGAL: USAID CASH TRANSFER DISBURESMENTS BY TRANCHES UNDER ESF & AEPRP PROGRAMS

Program Number/Title	Date of Original Agreement	Total Obligation ($000)	Local Currency Uses	Amount ($000)	Date Mo/Dy/Yr	Amount ($000)	Date Mo/Dy/Yr	Amount ($000)	Date Mo/Dy/Yr	Undisbursed Balance
0262-ESF-I (CIP)	08/18/83	5,000	Repayment of Crop Credit Due to the Banking Sector	2,500	03/29/84	2,500	06/29/84	-	-	-
0278-ESF-II	12/17/83	10,000	Reimbursement of Crop Credit and GOS Arears on ONCAD Debt	10,000	12/17/83	-	-	-	-	-
0287-ESF-III	12/28/83	15,000	Repayment of the Credit for the Peanut Seed Stock	15,000	12/28/84	-	-	-	-	-
0288-ESF-IV	12/27/85	12,484	Repayment of GOS Arrears Due to Private Enterprises	10,000	12/31/85	1,484	06/25/86	1,000	12/01/86	-
0289-ESF-V	05/06/87	11,075	Repayment of GOS Arrears Due to Private Enterprises	6,000	06/25/87	5,075	01/04/88	-		-
0290-ESF-VI	11/30/88	9,700	Repayment of GOS Arrears Due to Private Enterprises	5,000	01/04/89	-	-	-	-	4,700
0291-AEPRP-I	03/22/86	14,000	Repayment of GOS Arrears Due to Private Enterprises (1st Tranche) and Reimbursement of GOS Arrears on ONCAD Debt (2nd and 3rd tranches)	5,000	09/30/86	5,000	02/29/87	4,000	12/27/88	-
0292-AEPRP-II	/89	23,000								23,000
0293-ESF-VII	/89	9,700								9,700

Source: USAID/Dakar, 6/14/89

policy and decisions. Therefore, ESF VI also included a condition as to the continued functioning of the now re-named "GOS-USAID Working Group on Policy Reform."

Links with Other USAID Programs and Those of Other Donors

The ESF policy reform objectives are carefully tailored to support and complement other USAID programs and the PL 480, Title I Program. This applies especially to agricultural projects since the ESF IV, V and VI conditionality focused almost exclusively on that sector. Project assistance has been particularly closely linked to the conditionality in the ESF's project assistance to OMVS agricultural research, cereals production, community and enterprise development, agricultural production support, irrigation, and water management.

Similarly, the conditionalities of the ESF's IV, V, and VI have been closely coordinated with the agricultural segments of the World Bank's SALs II and III and those of the CCCE. This applies particularly to the reforms affecting agro-industries, such as SONACOS, and the entire rice sector. Audits have been coordinated and action plans have been jointly developed with the GOS. This coordination is proceeding on several levels, at frequent meetings of donors represented in Dakar, usually convoked by the World Bank resident representative; at sectoral consultative group meetings in Dakar, Europe or Washington; or at general consultative group meetings, usually held in Paris. Furthermore, there are special coordination meetings among a limited number of donors on particular areas of interest. A notable example is the close coordination between the World Bank, USAID, and the CCCE on agricultural sector structural adjustment. USAID considers donor coordination generally satisfactory.

Effectiveness of ESF Approach

The foregoing analysis of the accomplishments of ESF IV, V and VI, to the extent the latter has been implemented, suggests that these EFS's have, by and large, accomplished what they were designed to do, namely: to provide a forum for a policy dialogue with the GOS; to bring about certain policy reforms; and to relieve the GOS of budgetary pressures by repaying for it a certain level of GOS arrears to the private sector. In the area of policy reforms, however, the record of success has been mixed, in that the GOS has accepted policy advice and actually carried out policy reforms only to the extent that it has judged the political price to be tolerable. For example, it has not moved to eliminate the price compensation system in favor of free market and private sector activities supported by fiscal

measures, such as export taxes or import duties. At the same time it should be recognized that USAID advice on the elimination of the price compensation system did not present a strong case of major benefits from the efficiencies of the proposed system. Overall, it is to the credit of USAID that it has approached policy reforms in a flexible manner and shifted its position when there was no further prospect for success and lack of unanimity among Senegal's other major donors.

G. Budget Support and the Overvalued CFA Franc: Key Dilemmas

The Effect of Budget Support on Structural Adjustment

As mentioned in the previous section, a principal objective of the ESF program is to provide budget support to the GOS to help it reach its performance targets agreed with the IMF. To this effect, line items in the TOF have been selected by the GOS and USAID, namely payment of GOS arrears to the private sector, in return for certain policy changes. The success, or lack thereof, of these policy reforms has been discussed in previous sections. The record has been mixed. In terms of relieving GOS budgeting pressures, however, the record is unmistakably positive. Unfortunately, this success has also made it possible for the GOS to avoid or postpone critical structural reforms. It has contributed to the GOS's "soft alternative" to reforms. Budget support, be it from the World Bank, the CCCE, USAID, or any donor, has simply permitted the GOS to limit changes in the status quo, and to continue accustomed consumption patterns. In short, it has allowed the GOS to avoid structural adjustments of critical importance to the country's economic future in at least two areas: (1) civil service reform, and (2) the privatization of loss-making state enterprises. The reduction and reform of the civil service and the public payroll have been conditions in the World Bank's SAL II and III.

Senegal's civil service, at 9.7 public employees per 1000 population, places it in the middle group of 13 CFA countries, roughly comparable to the ratios in the Côte d'Ivoire (8.9) and Togo (10.0), but it is much higher than those in other Sahelian countries with a comparable resource endowment, such as Mali (5.7), Niger (4.9), Chad (4.0) and Burkina Faso (2.7). The average monthly salary of civil servants in Senegal is exceeded only by those of Gabon, Côte d'Ivoire and Cameroon. Therefore, Senegal's civil service is large in relation to its population and as costly as that in countries with a much more favorable resource base.

The GOS's operating budget has increased steadily over the last five years, from CFAF 205 billion in 1983/84 to CFAF 246

billion in 1987/88; the public payroll has risen from CFAF 100 billion to CFAF 122 billion over the same period. (For comparison, the cost of living increased 15.2 percent between 1984 and 1987.) At the same time, the number of civil servants has remained steady at about 68,000, or even increased slightly, despite the fact that with trade liberalization and the removal of administrative controls, the need for civil servants has declined (except in such fields as health and education, where employment has not increased).

Another area of heavy fiscal deficits has been the parapublic enterprise sector where losses have continued in spite of the conditionality to reverse the trends in the World Bank's SAL II and III. The GOS committed itself to a privatization program of state enterprises in the manufacturing and commercial sectors. While it has closed down a number of loss-making public enterprises and reduced its ownership share in a number of others, so far none has been sold to the private sector.

The political costs of dismissing unneeded civil servants and workers in state enterprises are, of course, painful. At the same time, lack of progress in reducing the heavy burden of public expenditures on the economy is making the policy goal of growth with stability more difficult to achieve. It may, with some justification, be argued that the effect of the ESF budget support has been the opposite of what was desired: inhibition of structural adjustment instead of promotion of reform.

Budget support for operating expenses has, in fact, given the GOS the wrong signal; namely, tolerating slow adjustment measures by helping it to maintain accustomed patterns of public expenditures. Clearly, with a reduced level of budget support for operations, the GOS would have been faced with the need to cut the public payroll some time ago. The GOS has been skillful in convincing the donors that the consequences of payroll cuts would cause political instability. It is at least open to doubt whether the Senegalese political system is really so fragile that it cannot stand a steady annual decrease in the civil service payroll brought on by a reduction in external budget support for operating expenses, particularly if accompanied by relocation and private enterprise promotional assistance. Budget support may "buy" political stability in the near term, but without the necessary reforms, it only undermines it over time. Given the country's rapid population increase and the number of youths already unemployed, especially in urban areas, this time may be rather short.

The Overvalued CFA Franc

A serious problem for Senegal's reform program is the overvaluation of the CFA franc. The lack of success by USAID and the World Bank in replacing the price compensation system with private sector solutions supported by fiscal measures can be traced largely to the overvaluation of the CFA franc. It is generally believed that this overvaluation is on the order of 45 to 50 percent. Clearly, with a CFA franc devalued by approximately this proportion, exports would be much more profitable and imports that much more expensive. The present high tariffs would no longer be required to protect domestic agriculture and industry against foreign competition (to the extent they can be protected at all by import duties). A devaluation, however, would have to be UMOA-wide and, therefore, lies beyond power of the GOS to initiate unilaterally.

The key country for such a step naturally is France. Given its alignment of its fiscal and monetary policies to those of Germany by 1992, France undoubtedly will begin to curtail its budget support and other assistance to its former colonies in Africa. This may provide the impetus for a severance of the CFA franc from the French franc.

The following sequence of actions could be imagined: (a) renegotiation of the Lomé convention (Lomé IV) in 1989 or 1990 providing for preferential prices for the export products of African "Lomé" countries into the EEC market to provide them a higher level of income; (b) steady reduction of official debt to zero (France has already cut its oustanding balances with "Lomé" countries by 30 percent) and provisions for write-offs by private banks to near 100 percent by 1993 or 1994; and (c) free float of the CFA franc unlinked to the French franc by 1994 or 1995. With a certain assured level of export proceeds and the debt servicing burden essentially eliminated, there is no reason why the CFA franc could not be stable in relation to major world trading currencies, once devalued, without the link to the French franc, assuming continued World Bank and other donor project assistance. Presumably by then all critical structural adjustments will have been put in place.

If this sequence of events is at all realistic--and the assumption of the indefinite continuation of the present CFA franc-French franc relationship is not--then the objectives of ESF support may need to be redefined in terms of policy reform focus and in the application of counterpart funds. If over a five-year horizon, the fixed CFA franc-French franc relationship is to come to an end, then the GOS budget for current operations must reach near equilibrium as soon as possible through the elimination of the deficit. This means, first, a reduction in GOS operating expenditures and, second, an increase in regular

revenues from taxes (and not from windfall profits from price compensation). With a reduced role of the GOS in the economy, and especially with a smaller, more efficient civil service, there needs to be a strengthened financial and institutional framework in place to support private enterprise. This is important especially for small and medium-sized ventures in rural areas and small towns, to absorb manpower already unemployed, that yet to be released from the public payroll and from state enterprises, and that produced by population expansion. The need for job creation is already acute in the towns because of the rural exodus. An acceleration of structural reforms affecting the GOS budget, especially civil service reduction, on the one hand, and job creation in the private sector, on the other, would be in the political interests of both the U.S. and the GOS.

VI. CONCLUSIONS AND LESSONS LEARNED

The following conclusions regarding the success and effectiveness of the ESF program, and in particular ESFs IV, V, and VI, emerge from the discussions in previous sections:

1. The program has been successful as a vehicle for a formal periodic GOS-USAID dialogue on policy reforms and structural adjustment in the areas selected for special USAID attention.

2. The program has been successful in bringing about policy reforms in areas where the political consequences for the GOS were considered tolerable. This applied especially to the conditionality for clearing up arrears owed to the GOS.

3. The program has been successful in introducing reforms in the operations of such GOS entities as CPSP and SONACOS, and in reducing the costs to the GOS associated with such private companies as GMD and CSS.

4. The program has not been successful in bringing about reforms where the GOS felt that its strategic interests were threatened or where it was not convinced that the alternatives to the existing system would provide it with predictable benefits. This was the case primarily with the conditionality to eliminate the rice price compensation system.

5. The studies associated with the program have been pertinent to important policy issues for the GOS and, together with the policy dialogue, helped to set policy reforms in so far as the GOS has acted to date on the recommendations.

6. Program management has been smooth and efficient. Documentation throughout implementation has flowed without difficulty.

7. The U.S. dollar deposits from program disbursements have contributed to reducing Senegal's deficit in its foreign exchange operations account with the BCEAO and eventually accrued to the franc zone reserves.

8. The counterpart funds in CFAF have helped the GOS reach its fiscal targets, as agreed with the IMF, through USAID's help in paying off arrears to the private sector. However, there is no evidence of employment generation.

9. In general, the program has operated in the way it was designed and has achieved most of its objectives.

10. The evaluator's contention is that the effect of budget support--from the ESF program, World Bank SALs, CCCE credits, or budget contributions from other donors--has been the opposite of that desired. Such budget support has made it easier for the GOS to avoid or postpone certain policy reforms considered essential by the donors, such as reducing the number of civil servants, many of whom are no longer needed in a liberalized economic environment. It has permitted the GOS to pay lip service to privatization of loss-making state enterprises in the industrial and commercial sector rather than to pursue an aggressive divestiture program. From this point of view, the ESF program has hindered rather than fostered the implementation of policy reform.

11. The fixed link between the CFAF and the French franc is likely to be severed within about five years. This will mean a CFAF devaluation against major world trading currencies of about 50 percent. Such a devaluation would be beneficial for exports and would discourage imports. It would have to be accompanied by a series of measures, such as a reduction in import duties, perhaps an export tax, and temporary domestic wage and price control measures. Most importantly it would have major repercussions on the GOS budget. It is likely that the level of budget support available to Senegal from abroad would be reduced. This means that the GOS will have to live within its own income; that is, eliminate its operating budget deficit. To accomplish this it will have to reduce public employment. The creation of new jobs in the private sector, therefore, has become the principal means to safeguard Senegal's democratic system. The most promising arenas for employment expansion are in the creation of small and medium-sized enterprises for the processing and transformation of agricultural products and the manufacture of goods for the domestic and export markets. To prepare for this transition, consideration should be given to redirecting the use of ESF counterpart funds to support employment creation in the private sector and discontining their use for GOS budget support.

VII. RECOMMENDATIONS

In view of the conclusions reached in the previous section, it is recommended that the counterpart funds generated from ESF dollar disbursements be redirected as follows:

1. Budget support with payment of GOS arrears to the private sector should be discontinued in view of the observed counterproductive effects of budget support on the GOS's implementation of structural reforms, notably related to public employment.

2. These funds should be utilized directly for job creation in the private sector to help the GOS meet its objectives of fostering a productive private enterprise economy.

3. If ESF counterpart funds can be utilized only for GOS budget support, this program should be terminated in favor of project assistance in direct support of employment creation.

4. The "GOS-USAID Working Group on Policy Reform" should be continued independently of any direct budget support to the GOS. (It is hard to imagine that this working group depends on direct budget support, otherwise it would seem that USAID was having "to buy" this relationship.) There is no factor in the special U.S. interests in Senegal that would appear to be adversely affected by the proposed shift in counterpart allocation.

5. Among ongoing USAID activities in support of employment creation, Project No. 685-0260, Community and Enterprise Development, would seem to be particularly well-suited for this purpose with its provision of credit at market interest rates to village organizations and small-scale enterpreneurs. With its recovery rate of 97 percent, as reported in July 1988, this program promises to be a real factor in employment creation rather than the assumed, but undocumented, one resulting from the repayment of GOS debts to existing private enterprises. The reported high cost of administration of this program presumably can be reduced over time with national coverage and an expansion of its lending volume. If it is as successful as it now promises to be, it could over the years even become self-supporting. In contrast, the need for budget support never ceases.

APPENDIX 1

ESF IV (FY 1986 - approved 12/27/85)

I. POLICY CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

($10 million released on December 31, 1985 to BCEAO; USAID's acceptance of local currency use dated 9/10/86.)

Objectives	Implementation
A. Reorganization of the Imported Rice Sector: Written confirmation from the Treasury that the Grantee's price equalization and stabilization fund (CPSP) has honored all financial arrears to the Grantee and private banks thus promoting a smooth transition to significant private sector participation. This written confirmation should specify that the arrears have been honored:	
1. through the reimbursement by the CPSP of CFAF 5.0 billion in arrears on customs duties on imported rice owed to the Grantee's Treasury (written confirmation will be obtained from both the Grantee's Customs Department and Treasury);	**Satisfied.** Letter by Minister of State, 12/30/85.
2. through the payment by the CPSP of a minimum of CFAF 500 million to the Grantee in the context of sums due on price equalization for CPSP's imported rice operations (written confirmation will be obtained from the Treasury of the Grantee); and	**Satisfied.** Letter by Director-General of CPSP, 1/2/86.

Objectives	Implementation
3. through the collection from the CPSP of CFAF 400 million in arrears on rice credit sales made in 1983 and 1984 (written confirmation will be obtained from the CPSP's "Agent Comptable Particulier").	**Satisfied.** Letter by Director-General of CPSP, 12/31/85.
B. Phasing-out of Price Equalization: The Grantee agrees to:	
1. eliminate price equalization on exported groundnut products and on domestically consumed vegetable oil; and	**Satisfied formally**, but not in spirit, by removal of groundnut sector from CPSP's operations. By letter from the Minister of State, 12/19/85, the GOS agreed to policy change. However, the problem was simply turned over intact to SONACOS and the GOS Treasury.
2. authorize the oil crushing firms to recommend adjustment of the domestic consumer price for cooking oil in relation to price fluctuations on international markets and local market conditions; these firms are, in turn, liable for taxes and duties on imported vegetable oil and for export duties on groundnut oil.	**Partly satisfied.** By letter from the Minister of State, 12/19/85, the GOS agreed to policy change. The domestic consumer price for cooking oil was adjusted to a new level to take account of local market conditions, but the retail price for cooking oil is still fixed and unrelated to international prices.
C. Agro-Industry: The Grantee agrees to give A.I.D. evidence that:	

Objectives	Implementation
1. oil crushing firms have received approval from the Grantee to take all necessary measures required to maintain profitability in the face of fluctuating production levels and international prices (e.g. through appropriate reductions in excess plant capacity and personnel).	**Satisfied.** Letter by Minister of State, 12/19/85. However, groundnut sector is still incurring deficits, except perhaps in 1989, in part because of the high farmgate price for peanuts fixed by the GOS. Although some personnel reductions were carried out and other savings effected (number of collection points reduced), the crushing capacity still had not been reduced by mid-1989.
2. agro-industries (cotton and rice) will reimburse all outstanding crop credit for the 1985 crop year. The Société Nationale de Commercialisation des Oleagineux de Senegal (SONACOS) will reimburse the crop credit and interest owed to the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) with respect to groundnuts for crushing. Pending the availability of funds and appropriate approvals, the second tranche of dollars five million will be disbursed after the Société Economique et Industrielle du Baol (SEIB) has reimbursed the totality of the capital plus interest owed with respect to purchases of groundnuts for crushing for the 1985 crop year. Written confirmation to this effect will be obtained from the BCEAO.	**Satisfied.** Letters from the BNDS and BCEAO 12/31/85 and BCEAO 1/4/86.

Objectives	Implementation
D. Agricultural Inputs: The Grantee will provide a written statement cleared by the Ministry of Rural Development that for the three-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 for SAED, SODEFITEX, SODEVA, and SOMIVAC (for cereals seeds) and PIDAC. The CNCAS credit program will not be affected by this condition precedent.	**Satisfied.** Letter by the Ministry of Rural Development to the Ministry of Planning, 4/12/85.

II. POLICY CONDITIONS FOR SECOND AND THIRD DISBURSEMENTS

($1,484,000 released 6/25/86 and $1,000,000 on 12/1/86 to BCEAO)

Objectives	Implementation
A. Reorganization of the Imported Rice Sector: 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 Grantee reserves the right to designate a specific wholesaler to distribute rice in the event of a rice shortage in any given region);	**Satisfied.** Announcement made in February 1986 with new system to be in effect in July 1986. Quota system abolished 7/1/86, replaced by contracts between distributors and CPSP. New import system published 9/2/86 with effect 12/1/86.
2. to obtain the final reconciliation of the CPSP's accounts by April 1986 to facilitate transfer of imported rice operations from CPSP to private importers;	**Satisfied.** Arthur Andersen audit delivered to CPSP on 11/20/86.
3. to introduce by July 1986 a mechanism to manage the Grantee's security/regulating stock and to obtain an appropriate corresponding reduction in the level of CPSP personnel;	**Satisfied.** Security stock of 60,000 MT of rice in place, but no reduction in personnel.

Objectives	Implementation
4. to ensure that the CPSP will have paid a cumulative total CFAF 10.0 billion in customs duties and will have collected an additional CFAF 400 million of arrears on earlier credit sales by July 1986, assuming timely legal action, before rice import operations are transferred from the CPSP to SONADIS and the private sector;	**Satisfied.** As of 6/30/86 CPSP paid CFAF 12.8 billion in customs duties to the GOS Treasury for FYs 1984, 1985, and 1986. Rice imports have not been transferred to SONADIS and only temporarily and partially to the private sector, March-June 1987.
5. to ensure that the regional retail sale prices of rice will reflect adequate margins and the full cost of transport by the beginning of July 1986 (prices will be considered as maximum prices and not as fixed prices).	**Not satisfied.** For distribution outside of Dakar, CPSP has been absorbing transportation costs since 7/1/86. While sales prices are not uniform, differences are smaller than the differences in transportation costs, i.e. CFAF 130/kg in Dakar and CFAF 135/kg in remote locations.
B. Phasing-out of Price Equalization: The Grantee agrees:	
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;	**Not satisfied.** Fixed producer prices for groundnuts and cotton still in effect in mid-1989.
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);	**Not satisfied.** World Bank has taken up issue with GOS. Price equalization of rice still in effect in mid-1989.

Objectives	Implementation
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;	**Satisfied.** Studies were carried out on production costs by CPSP-subsidized agro-industries. However, the purpose was not accomplished: no timetable was developed by March 1987 for reducing CPSP's price supports, nor is one in effect in mid-1989. Some progress, however, has been made (SONACOS and CSS operating subsidies were eliminated).
4. to replace, by July 1986, price equalization on imported rice with a special tax that will be readjusted periodically; and	**Not satisfied.** Price equalization still in effect in mid-1989.
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.	**Not satisfied.** Taxes on imported vegetable oil were reestablished in August 1986, (as were taxes on exported peanut oil), but suspended to help the crushing firms offset deficits on exports due to a sharp decline in world groundnut oil prices.
D. Agro-industry: 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;	**Satisfied.** SONACOS' loss on exported peanut oil in 1986 (CFAF 11.0 billion) was more than covered from profits from imported vegetable oil (CFAF 5.6 billion) and from payment of CPSP arrears (CFAF 6.3 billion).
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;	**Satisfied.**

Objectives	Implementation
3. that an independent detailed audit of SONACOS will be completed before the end of December 1986, of its processing and management units; and	**Satisfied**; however, not by December 1986. Arthur Young International audit only began in December 1986.
4. that oil crushing firms will develop a cost efficient means of managing a peanut security stock beginning the 1986/87 crop year.	**Satisfied**. Security seed stock limited to 60,000 MT. SONACOS/SEIB to sell seed stock to farmers for cash beginning in May 1987. Farmer-owned seed stock in SONACOS' warehouses incur storage charges.

ESF V (FY 1987 - approved 5/6/87)

I. POLICY CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

($6 million released on 6/25/87 to BCEAO)

Objectives	Implementation
A. Improving Economic Policy Reform Management	
The Grantee 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.	**Satisfied.** Letter from Minister of Economy and Finance confirms procedure for quarterly meetings. First meeting took place on 3/19/87.
B. Damping Imported Rice Consumption	
The Grantee 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.	**Satisfied.** Terms of reference for study on (b) and (c) agreed upon. However, no reference to (a). "Study on measures to reduce rice imports and definition of a fiscal mechanism to replace the price equalization system on rice," Fallou Dieye, Dakar, 11/2/87.

Objectives	Implementation
C. Reducing Agricultural Sector Deficits	
(1) The Grantee will confirm that SONACOS is actively attempting to collect from framers the peanut seed credit issued during crop year 1986/87, and will provide a status report on payments to date. If that credit is not repaid by the farmers, SONACOS will absorb the loss.	**Satisfied.** MDR protocol confirms that SONACOS, as of 3/15/87, successfully recovered outstanding seed debt of CFAF 2,961 million.
(2) The Grantee 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.	**Satisfied.** "Implications for Cereals Policy of Adjusting the Producer Price for Peanuts to Fluctuations in World Prices," by Papa Sall, November, 1987. "Harmonization of the Producer and Consumer Prices of Rice between Senegal and the Gambia," Mbaye Mbaron Jarrama et al., Dakar, November 1987.
(3) The Grantee will confirm that an audit of SONACOS has been initiated.	**Not satisfied.** Amended: Audit initiated Spring 1987 but delayed due to dispute of terms of reference. CCCE took over financing from World Bank and broadened study to entire peanut sector.
(4) The Grantee will agree to undertake an audit of the CSS.	**Satisfied.** Audit commissioned by CPSP from Louis Berger International, O.C.C.R International, and Arthur Young. Study of sugar sector by Arthur D. Little.

Objectives	Implementation
D. Encouraging Private Sector Agro-Industry	
The Grantee 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.	**Satisfied.** "Constraints on the Senegalese Banking System Limiting Credit to Small-Scale Enterprises," Charbel Zarour, Dakar, November 1987.

II. POLICY CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

($5,075,000 released 1/4/88 to BCEAO)

Objectives	Implementation
A. Improving Economic 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.	**Satisfied.** Regular quarterly meetings held.
B. Damping Imported Rice Consumption	
The Grantee 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.	**Satisfied.** "Study on Measures to Reduce Rice Imports and Definition of a Fiscal Mechanism to Replace the Price Equalization System on Rice," Fallou Dieye, Dakar, November 2, 1987.
Special Covenant	
The Grantee will adhere to the current timetable for privatization of rice sector imports, namely that the private sector will be responsible for twenty-five (25) percent of rice imports for the period of December 1, 1986 through November 30, 1987, and for the entire quantity of commercial imports for the period of December 1, 1987 through November 30, 1988, except for CPSP imports for managing the security stock of 60,000 MT.	**Not satisfied.** Covenant amended, then deleted. GOS did allot responsibility to private sector for importing 85,000 MT rice between March and June 1987 (25 percent of imports for December 1, 1986-November 30, 1987). Then donor committee recommended postponement for one year. Issue is no longer pursued by USAID and World Bank.

Objectives	Implementation
C. Reducing Agricultural Sector Deficits: (1) The Grantee will provide evidence that the crop year 1896/87 peanut seed credit has either been repaid by the farmers or absorbed by SONACOS.	**Satisfied.** Council of Ministers comminique of 11/28/87 stated that 100 percent of peanut seed credit for 1986/87 crop year was repaid by farmers' cooperatives.
(2) The Grantee will provide a substantive progress report satisfactory to USAID on the study on producer price relationships between cereals and peanuts.	**Satisfied.** "Implications for Cereals Policy of Adjusting the Producer Price for Peanuts to Fluctuations in World Prices," Papa Sall, November 1987.
(3) The Grantee will provide a substantive progress report on the SONACOS audit.	**Not satisfied.** Condition amended to reflect change in timetable. Terms of reference received by USAID as of 6/30/88 audit had not been contracted by CCCE and World Bank.
(4) The Grantee will provide a substantive progress report on the CSS audit.	**Satisfied.** Louis Berger International study of sugar sector and CSS audit completed June 1987.
D. Encouraging Private Sector Agro-Industry	
The Grantee 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.	**Satisfied.** "Constraints on the Senegalese Banking System Limiting Credit to Small-Scale Enterprises," Charbel Zarour, Dakar, November 1987.

ESF VI (FY 1988 - approved 11/29/88)

I. POLICY OBJECTIVES: CONDITIONS PRECEDENT TO FIRST DISBURSEMENT

($5 million released on January 4, 1989 to BCEAO)

Objectives	Implementation
A. Continuing Functioning of GOS-USAID Working Group on Policy Reform	
The Grantee will provide confirmation that the procedure will continue in force for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss (a) formulation and (b) implementation of structural reform.	**Satisfied.** Letter of 12/23/88 from the Ministry of Economy and Finance confirms continued procedure of quarterly GOS-USAID meetings.
B. Reducing the Net Drain of Agro-Industry on the GOS Treasury	
With a view to maximizing the positive perequation received by the GOS, the Grantee will provide evidence that:	
(1) full payment of the perequation on wheat purchased in 1987 and 1988 to date has been made;	**Satisfied.** 12/28/88 letter from Ministry of Economy and Finance confirms full payment by millers of perequation on wheat purchased in 1987 and 1988.
(2) the current agreement with the millers will be terminated before October 31, 1988 and negotiations on a new agreement will be undertaken.	**Satisfied.** 10/28/88 joint letter from Ministers of Economy and Finance, Industrial Development and Crafts and Commerce terminated agreement with millers, effective November 1, 1989.

Objectives	Implementation
The new agreement will specify that: (a) wheat imported commercially into Senegal, for delivery after November 1, 1989, will be acquired through a process of public international tender conducted or supervised by the CPSP; (b) the lowest qualified bidder fulfilling the conditions of the tender under this process will be awarded the contract; (c) the perequation on wheat imports will be calculated on the basis of the awarded contract price; (d) the perequation will be paid when the wheat is taken from the port of Dakar whether in cash or by the bank draft payable in ninety (90) days. The Grantee will make available to USAID, after the wheat is taken from the port of Dakar, all the documents that demonstrate that all of the wheat perequation due has been collected in accordance with (a) through (d) above, within the required time limit.	Negotiations on new agreement have been initiated for conclusion of a new agreement to be signed before November 1, 1989.
(3) Since the terms of the current agreement will be operative until October 31, 1989, in the interim (November 1, 1988 - October 31, 1989), (a) the reference price for calculating the perequation on wheat imports will be set on the basis of the lowest world price taking into account all subsidies provided by the exporting countries; and, (b) the CPSP will widen the range of its consultations to the greatest extent possible, in order to ensure adequate coverage of wheat exporters.	**Satisfied, insofar as GOS agreed to the conditions.** However, Mission is still waiting for an explanation by the CPSP of its consultation procedures (second tranche condition).

Objectives	Implementation
ii. Reducing Agricultural Sector Deficits	
(1) The GOS will provide to USAID the preliminary results of the SONACOS audit and peanut sector study financed by the CCCE.	**Satisfied**, November 1988.
(2) The GOS will provide to USAID the preliminary results of the Arthur S. Little audit of the Compagnie Sucriere Senegalaise (CSS) carried out for the GOS.	**Satisfied**, August 1988.
(3) The third SAED Lettre de Mission will be adopted by the GOS with the approval of the donors and will have been signed by SAED and the GOS.	**Satisfied.** Third Lettre de Mission with SAED signed November 1987, but USAID did not receive it only until March 1988.
C. Increasing the Efficiency of Resource Allocation in the Agriculturel Sector	
i. Clarification of Rice Policy	
(1) The GOS will agree to carry out an official review of its rice policy in the light of the consultant's report prepared under the terms of ESF-V, the agricultural price and incentives study by SEDES financed by the World Bank and the Caisse Centrale de Cooperation Econimique (CCCE), and the November 1987 review of the rice import privatization experiment of March-June 1987. As part of the review, the GOS will make explicit and attempt to reconcile the competing objectives of its current price policy, among them:	

Objectives	Implementation
protection of and incentive to local production of cereals (coarse grains and rice); social impact; market liberalization; and alleviation of the GOS budget situation.	**Satisfied.** Ministry of Economy and Finance confirmed in December 1988 GOS agreement to carry out an official review of its rice policy.
(2) The GOS will prepare the terms of reference for a study (to be financed by USAID under ESF-VI) to examine the modalities and timing for the disengagement of SAED from the milling and marketing of rice in the Senegal River Valley, as an incentive to increased paddy production and acceleration of privatization.	**Satisfied.** The GOS prepared draft of terms of reference for the study in December 1988.
ii. Encouraging Private Sector Agro-Industry	
(1) The GOS will prepare and present to USAID the terms of reference for a study of ways to expand private sector agro-industry in the Senegal River Valley. Such a study will take account of other on-going research related to this topic. The study will be funded under ESF-VI.	**Satisfied.** The GOS presented terms of reference for the study in November 1988; study is underway.
(2) The GOS and SAED will establish a timetable for withdrawal of SAED from credit programs in the Senegal River Valley in favor of the Caisse Nationale de Credit Agricole Senegalaise (CNCAS) and other participating banks in the context of the third SAED Lettre de Mission.	**Satisfied.** Third Lettre de Mission of SAED, dated November 1987, established timetable for withdrawal of SAED from credit program.

II. POLICY OBJECTIVES: CONDITIONS PRECEDENT TO SECOND DISBURSEMENT

($4.7 million, not yet released)

Objectives	Implementation
A. Continued Functioning of GOS-USAID Working Group on Policy Reform USAID/Senegal and the GOS will hold at least one quarterly meeting on policies related to structural adjustment after release of the first tranche of ESF-VI.	**Satisfied so far.** Regular meetings are taking place quarterly or more frequently.
B. Reducing the Net Drain of Agro-Industry on the GOS Treasury	
i. Maximizing Perequation on Wheat Imports	
The Grantee will provide evidence that:	
(1) the perequation on wheat purchased in CY 1988 has been fully paid.	**Satisfied.** Per letter of Minister of Economy and Finance, 12/28/88.
(2) the GOS has negotiated with the millers a new agreement containing the points noted in Section 2.3.b.i (2) above.	**Not yet satisfied.**

Objectives	Implementation
(3) the reference price for the perequation on wheat imports for the period November 1, 1988- October 31, 1989 has been determined according to the procedure described in Section 2.3.b.i. (3) above. USAID will independently verify the international price quotations on which the reference price was set.	**Not yet satisfied.**
ii. Reducing Agriculture Sector Deficits	
(1) The GOS will confirm its timetable for progressive reduction and elimination of the subsidy for treatment of peanut seeds, namely (in billions of CFAF): 1986/87: 1.0; 1987/88: 0.5; 1988/89: 0.35.	**Satisfied**, by line item in GOS budget. Program is on track. There will be no subsidy for the treatment of peanut seed beginning with the 1989/90 crop year.
(2) The GOS will approve and begin implementation of this action plan for renegotiating the special agreement with SONACOS, in light of the audit financed by the CCCE mentioned in section 2.3.b.ii.(1) above.	**Satisfied**, with adoption early in 1989 of a short-term action plan aimed at reducing SONACOS's processing costs. A medium-term action plan is to be in effect by the end of 1989.
(3) The GOS (a) will review the conclusions of the A.D. LIttle audit of the CSS mentioned in Section 2.3.b.ii (2) above and (b) will prepare and present to USAID an action plan for dealing with the CSS.	**Not yet satisfied.**

Objectives	Implementation
C. Increasing the Efficiency of Resource Allocation in the Agriculture Sector	
i. Clarification of Rice Policy	
(1) The GOS will prepare and present to USAID a policy statement on rice policy following the official review specified in section 2.3.c.i.(1) above.	**Not yet satisfied.**
(2) On the basis of the study referred to in Section 2.3.b (2) above,the GOS will present to USAID recommendations on modalities and timing for the disengagement of SAED from the milling and primary marketing of rice in the Senegal River Valley.	**Not yet satisfied.** Study was completed, "The Milling and Marketing of Rice, a Preliminary Study on Privatization," SONED, MDR/USAID, Dakar, June 1989.
ii. Encouraging Private Sector Agro-Industry	
(1) The GOS will prepare an action plan for encouraging expansion of private sector agro-industry in the Senegal River Valley identified in the study specified in Section 2.3.c.ii (1) above and other studies on the Valley.	**Not yet satisfied.** Study completed by Michael P. McLindon, Louis Berger International, Inc., for USAID/Dakar, June 1989.

Objectives	Implementation
(2) the GOS will present to USAID confirmation of initial implementation of the plan for replacing the agricultural credit function of SAED by the CNCAS and other participating banks in the Senegal River Valley according to the timetable cited in Section 2.3.c.ii(2) above.	**Not yet satisfied.**

Presented below is a summary of the numbers of policy conditionalities which were satisfied, not satisfied or pending as of July 1989:

	Satisfied	Not Satisfied	Pending	Total
ESF IV				
1st Disbursement	8	0	-	8
2nd Disbursement	9	5	-	14
ESF V				
1st Disbursement	6	1	-	7
2nd Disbursement	6	2	-	8
ESF VI				
1st Disbursement	11	0	-	11
2nd Disbursement	3	0	8	11
TOTAL ESF IV and V	29	8	-	37
TOTAL ESF IV - VI	43	8	8	59

Source of Conditionalities: Program Grant Agreements of ESF IV, V, VI between the Republic of Senegal and the United States of America.

APPENDIX 2

SELECTED DOCUMENTS

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Senegal - Statistical Annex, SM/88/248, November 9, 1988.

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Project de Declaration de Politique de Développement Agricole, (document de travail), Dakar, 10 juin 1989.

Ministère du Développement Rural (MDR/USAID)
Usinage et Commercialisation de Riz, (étude préliminaire sur la privatisation), SONED, Dakar, juin 1989.

Ministère du Développement Rural (MDR)
Communication en Council Interministerial sur (1) le Gilan de la campagne de production agricole (1988-1989); (2) l'etat d'avancement de la campaign de commercilisation (1988-1989); (3) la préparation de la campaign agricole (1989-1990); présente par M. Chekh A. Khadre Cissokho, Ministre du Développement Rural, Dakar, 18 mai 1989.

Ministère du Développement Rural (MDR)
Etude de la Filière Eugrais au Senegal, SENAGROSOL, Dakar, avril 1989.

Ministère du Développement Rural (MDR)
Note sur la SODEFITEX (Soc. du Développement des Fibres Textiles), (janvier 1986-mars 1988). Bilan des activités, affairs en instance, perspectives, Dakar, 15 mars 1988.

Ministère du Développement Rural (MDR)
SODEVA (Soc. de Développment et de Vulgarisation Apicole), Bilan et perspectives (janvier 1986 - mars 1988), Dakar, avril 1988.

Ministère du Développement Rural (MDR)
SOMIVAC (Soc. de Mise en Valeur Apricole de la Casaniance), (janvier 1986 - mars 1988). Bilan, affairs en cous et perspectives.

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SODAGRI (Soc. de Développement Apricole et Industriel du Senegal), Bilan des activites, janvier 1986 - mars 1988.

United States Agency for International Development (USAID) PAAD 685-0288 (685-K-604), ESF-IV, Program grant, 12/27/85, as amended.

United States Agency for International Development (USAID) PAAD 685-0289 (685-K-606), ESF-V, Dollar Disbursement Structural Adjustment Program grant, 4/15/87, as amended.

United States Agency for International Development (USAID) PAAD 685-0290 (685-K-607), ESF-VI, Dollar Disbursement Structural Adjustment Program grant, 11/10/88, as amended.

United States Agency for International Development (USAID) Privatization and the Development of the Private Sector in the Senegal River Valley, Michael P. McLindon, Louis Berger International, Inc., June 1989.

United States Agency for International Development (USAID) Fertilizers Subsidy Program, Mayoro Wade, Price Waterhouse, March 23, 1989.

United States Agency for International Development (USAID) The Effects of Structural Adjustment in Senegal, Robert R. Nathan Associates, Washington, D.C., September 1987.

United States Agency for International Development, Washington, An Overview of the Current USAID Program in Senegal, July 1988.

United States Agency for International Development, Washington, Lessons Learned: Evaluations of the Economic Support Fund Program in Senegal, (ESF I, II, and III), Nancy Northrop, 2 June 1986.

APPENDIX 3

PERSONS INTERVIEWED

Sarah Jane Littlefield, Director, USAID/Senegal

Harold Lubell, Program Officer, USAID/Senegal

Rodney Kite, Agricultural Officer, USAID/Senegal

Jean-Francois Patorni, Resident Representative, IBRD/Dakar

Brian Ngo, Economist, IBRD/Dakar

David Jones, Agricultural Officer, IBDR/Washington

Abdoulaye Diep, Director General, SONACOS

Abdourahmane Sow, Director General, CPSP

Mamadou Lavine Disp, Directeur des Etudes, CPSP

Lt. Col. Oumar Kané, Director du Commissariat, Comissariat à la Sécurité Alimentaire

Abdoul Aziz Diep, Coordinateur Comité de Suiri de l'Ajustement