

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SENEGAL

DATE: December 7, 1989

THROUGH: PRM: RGreene

FROM: PDO: TMyers:sd

SUBJECT: Amendment to the Program Grant Agreement for Budgetary Support Under the FY 1989 Economic Support Fund Structural Adjustment Program Grant (ESF-VI) (the "Agreement"): Deletion of the requirements of two conditions precedent and reincorporation of these requirements as covenants in the Agreement.

REF: (A) Program Grant Agreement for Budgetary Support Under the FY 1989 Economic Support Fund Structural Adjustment Program Grant (ESF-VI) 685-K-607/685-0290
(B) DAKAR 14211: ESF-VI Second Tranche Disbursement

PURPOSE: Your approval is requested to convert the substantive requirements of two conditions precedent in the Agreement into covenants to enable the disbursement of \$4.7 million for the GOS pursuant to the Agreement.

PROBLEM: Section 2.4.c.i.(2) of the Agreement sets forth a condition precedent to release of the second tranche:

"On the basis of the study referred to in Section 2.3.b.(2) of the Grant Agreement, 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".

Section 2.4.c.ii.(1) sets forth a condition precedent to release of the second tranche:

"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) of the Grant Agreement and other studies on the Valley".

Events have demonstrated that these two conditions (of eleven total conditions) will not be fully satisfied by the GOS until March 31, 1990, as discussed below. All other conditions have been met. An amendment to the Agreement has been prepared to allow the GOS to fulfill these requirements pending the execution of the SAED Fourth Letter of Mission by

March 31, 1990. The proposed amendment will delete these two conditions precedent and re-establish them as covenants to be met by March 31, 1990. These modifications will permit releasing the second tranche in a timely manner to help meet immediate GOS budgetary requirements, including the timely payment of government wages.

DISCUSSION: The GOS regional development authority for the Senegal River Valley (SAED) has long played a dominant role in agriculture in the Senegal River Valley. For some time, donors have encouraged the GOS to reduce SAED's role which they have seen as a major constraint on private sector development and a drain on the government's budget. As part of its April 1987 Development Policy Letter, the World Bank put forward a proposal for privatization of one of SAED's highest cost activities, its rice milling operation. It also proposed that SAED stop marketing agriculture inputs and that the GOS take steps to ensure availability of credit throughout the Senegal River Valley following SAED's withdrawal from credit operations.

To support World Bank and Caisse Centrale efforts to focus GOS attention on private sector development in the Senegal River Valley and the high costs of SAED's monopoly there, USAID included two conditions precedent under the ESF-VI Agreement. The conditions are: Section 2.4.c.i.(2), calling for an action plan for disengagement of SAED from rice milling and marketing; and Section 2.4.c.ii.(1) which requires submission of an action plan for private sector agro-industry development in the Senegal River Valley.

The delay in meeting these two conditions was due in part to the late (October 1989) submission of a USAID-funded consultant study of privatization of rice milling and marketing. The GOS has committed itself to develop along with the World Bank, the French Caisse Centrale and ourselves an action plan for both SAED disengagement and private sector development as part of discussions for the Agricultural Sector Adjustment Program (PASA). In a November 20, 1989 letter to USAID, the Ministry of Economy and Finance stated that agro-industry will be a major item of focus in SAED's Fourth Letter of Mission covering the period 1990-1993. This Letter of Mission is to be completed before the end of March 1990. In this sense, the objective of the conditions has been achieved, and therefore, we recommend converting these two remaining conditions to covenants incorporating the GOS' promise to achieve both as part of the Fourth Letter of Mission.

A copy of this Action Memorandum will be sent to AFR/PD/SWAP.

ACTIONS REQUESTED: (A) That you sign the attached: (1) Project Assistance Approval Document (PAAD) Face Sheet, Amendment One (Attachment A); (2) Program Grant Agreement, Amendment One (Attachment B); and (3) Program Implementation Letter (PIL) 0290-2, (Attachment C), thereby: converting the two above referenced conditions precedent into covenants to enable release of the second tranche disbursement to help meet immediate GOS budgetary requirements.

Approved Julius E. Gales

Disapproved _____

Date 12/8/89

Attachments: a/s

Drafted by: PRM: MBeye M. Beye Date 7 Dec 89

Clearances: RLA: AAdams A.A. Adams Date Dec 8, 1989
CONT: TWalsh T. Walsh Date Dec 18/89

7130P

CLASSIFICATION:

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|--|--|-------------------------------------|----------------------------------|
| AID 1120-1 | AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT | 1. PAAD NO. 685-0290 (685-K-607) | |
| PAAD | | 2. COUNTRY Senegal | |
| | | 3. CATEGORY | |
| | | 4. DATE December 8, 1989 | |
| 5. TO: Julius E. Coles Director, USAID/Senegal | 6. OYB CHANGE NO. | | |
| 7. FROM: Desaix B. Myers Program Officer | 8. OYB INCREASE | | |
| 9. APPROVAL REQUESTED FOR COMMITMENT DFI \$ No Change | | 10. APPROPRIATION - No change | |
| 11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE | 12. LOCAL CURRENCY ARRANGEMENT | 13. ESTIMATED DELIVERY PERIOD | 14. TRANSACTION ELIGIBILITY DATE |
| 15. COMMODITIES FINANCED | | | |

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|-------------------------|--|---------------------------|-----------|
| 16. PERMITTED SOURCE | | 17. ESTIMATED SOURCE | |
| U.S. only: | | U.S.: | No change |
| Limited F.W.: | | Industrialized Countries: | No change |
| Free World: No change | | Local: | No change |
| Cash: No change | | Other: | No change |
| 18. SUMMARY DESCRIPTION | | | |

The PAAD Face Sheet dated November 29, 1988 is amended hereby as follows:

- Paragraph 3, Conditions Precedent to Release of Second Tranche, subparagraphs c.i.(2) and c.ii.(1) are deleted in their entirety.
- The Paragraph 3, Conditions Precedent to Release of Second Tranche, subparagraph c.ii.(2) is renumbered subparagraph c.ii.(1).

The PAAD Face Sheet cited above remain in force except as amended herein.

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|---------------|-------------|---|--------------------------------------|
| 19. CLEARANCE | | 20. ACTION | |
| REG/DP | DATE | <input type="checkbox"/> APPROVED | <input type="checkbox"/> DISAPPROVED |
| REG/GC | | Julius E. Coles AUTHORIZED SIGNATURE Director, USAID/Senegal TITLE | |
| AA/PPC | | | |
| M/EM | | | |
| M/SER/COM | | | |
| AA/PRF | | | |
| RLA | | | |
| CONT | Dec 8, 1989 | 12/8/89 | DATE |

CLASSIFICATION: 12/11/89

OUTGOING TELEGRAM

UNCLASSIFIED
AID 12/08/89

DIR:JECOLES

PRM:MBEYE:RS

1. PRM:RGILSON, 2. PDO:TMYERS, 3. CONT:TWALSH,
AID AMB DCM, CHRON

AMEMBASSY DAKAR

SECSTATE WASHDC, NIACT IMMEDIATE

AIDAC

FOR PFM/FM/A/PNP

E.O. 12356:N/A

SUBJECT: ESF-VI 685-K-607 (685-0290), CASH TRANSFER

REF: (A) STATE 392394, (B) DAKAR 14211

1. THE GOS HAS FULFILLED THE CONDITIONS PRECEDENT TO DISBURSEMENT OF THE SECOND AND FINAL TRANCHE OF DOLS 4,700,000 FOR ESF-VI FUNDING.

2. FINANCING REQUEST, AID FORM 1130-2, HAS BEEN ISSUED AND CONTENTS BY BLOCK NUMBER ARE AS FOLLOWS:

- 1. FROM MINISTRY OF ECONOMY AND FINANCE, REPUBLIC OF SENEGAL.

-2. PREVIOUS AMOUNT: DOLS 5,000,000. INCREASE: DOLS 4,700,000 (FOUR MILLION SEVEN HUNDRED THOUSAND DOLLARS). TOTAL: DOLS 9,700,000 (NINE MILLION SEVEN HUNDRED THOUSAND DOLLARS).

-3. N/A

-4. REQUEST NUMBER 002.

-5. ORIGINAL.

-6. AGREEMENT NUMBER 685-K-607 (685-0290).

-7. N/A.

-8. OTHER METHOD OF FINANCING: CASH TRANSFER TO BCEAO ACCOUNT NUMBER 36-058-204 CITIBANK, NEW YORK, N.Y.

-9. N/A

-10. N/A

-11. N/A

-12. SIGNED BY MOUSSA TOURE, DEPUTY MINISTER OF ECONOMY AND FINANCE ON DECEMBER 2, 1989.

-13. SIGNED BY JULIUS E. COLES, USAID/SENEGAL MISSION DIRECTOR ON DECEMBER 8, 1989.

3. SIGNED COPIES OF FINANCING REQUEST HAVE BEEN SENT TO AID/W.

4. PLEASE EFFECT WIRE TRANSFER INTO BANK ACCOUNT, PER BLOCK EIGHT ASAP.

5. THE CASH TRANSFER ACCOUNTING PROCEDURES ARE SPECIFIED IN OUR PROGRAM IMPLEMENTATION ORDER LETTER (PIL) NO. 685-0290-02 AS FOLLOWS:

USAID/SENEGAL AND THE GOS CONFIRM THAT THE PROCEDURES GOVERNING THE ESTABLISHMENT OF, DEPOSITS INTO, RELEASE OF FUNDS FROM DOLLAR AND CFAF SPECIAL ACCOUNTS, AND EX-POST ACCOUNTING CONTROLS PURSUANT TO THE ESF-VI GRANT AGREEMENT DATED NOVEMBER 30, 1988 ARE OBSERVED, AS NOTED BELOW:

(A) THE GOS CONFIRMS THAT CFAF 1.6 BILLION OF GOS ARREARS HAVE BEEN PAID TO PRIVATE SECTOR ENTERPRISES ACCORDING TO THE LIST ATTACHED TO THE LETTER FROM THE GOS TREASURER GENERAL DATED JUNE 5, 1989.

(B) USAID/SENEGAL CONFIRMS THAT IT WILL REQUEST USAID/WASHINGTON TO TRANSFER DOLS 4,700,000 TO BCEAO ACCOUNT NO. 36-058-204 AT CITIBANK/NEW YORK (THE ESF SPECIAL DOLLAR ACCOUNT FOR SENEGAL), FOR CONVERSION TO CFAF TO BE DEPOSITED IN THE GOS ESF SPECIAL CFAF ACCOUNT NO. 305.1000.5.106 AT THE BCEAO IN DAKAR.

(C) THE GOS CERTIFIES THAT THE DOLLARS RECEIVED FROM THE SECOND TRANCHE OF THE ESF-VI GRANT WILL NOT BE USED FOR MILITARY OR PARAMILITARY PURPOSES.

(D) THE GOS AGREES TO PROVIDE USAID/SENEGAL WITH ACCOUNTING RECORDS CONCERNING DOLLAR IMPORTS OF AN AMOUNT EQUIVALENT TO DOLS 4,700,000 DURING SIX MONTHS FOLLOWING THE DATE OF THE TRANSFER OF FUNDS.

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(E) THE BCEAO WILL NOTIFY USAID/SENEGAL BY WRITTEN COMMUNICATION OF RECEIPT OF THE TRANSFER WITHIN THREE DAYS OF ITS RECEIPT BY THE BANK IN NEW YORK.

(F) ANY INTEREST GENERATED BY THE SPECIAL DOLLAR ACCOUNT DURING THE PERIOD BETWEEN RECEIPT OF THE DOLLAR FUNDS AND DISBURSEMENT OF THE CFAF COUNTERPART BY THE BCEAO IS THE PROPERTY OF THE GOS. THE INTEREST WILL BE USED FOR THE SAME PURPOSES AS THE PRINCIPAL.

(G) PURSUANT TO EXISTING BCEAO RULES AND PROCEDURES RATIFIED BY THE WAMU MEMBERS, THE BCEAO WILL PAY INTO THE GOS SPECIAL CFAF ACCOUNT OPENED BY THE GOS IN THE BOOKS OF THE BCEAO THE CFAF EQUIVALENT OF THE DOLS 4,700,000 AT THE CFAF/DOLLAR RATE ON THE DAY OF DISBURSEMENT OF THE CFAF COUNTERPART BY THE BCEAO TO THE GOS ACCOUNT. THE DOLLARS WILL AUTOMATICALLY BECOME PART OF THE FOREIGN EXCHANGE POOL OF THE WEST AFRICAN MONETARY UNION (WAMU).

(H) USAID/SENEGAL CONCURS IN THE RELEASE OF THE CFAF COUNTERPART OF THE DOLS 4,700,000 ESF-VI SECOND TRANCHE CASH TRANSFER FROM THE GOS ESF SPECIAL CFAF ACCOUNT NO. 305.1000.5.106 TO THE GENERAL ACCOUNT OF THE GOS TREASURY AT ANY TIME AFTER THE CFAF COUNTERPART OF THE CASH TRANSFER IS RECEIVED BY THE GOS, IN ORDER TO REIMBURSE THE GOS FOR THE PAYMENTS OF ITS ARREARS TO PRIVATE SECTOR ENTERPRISES NOTED IN PARAGRAPH 5.(A) ABOVE AS ONE OF THE AGREED PURPOSES COVERED BY SECTION 5.2 OF THE GRANT AGREEMENT.

(I) THE GOS AUTHORIZES USAID/SENEGAL TO CARRY OUT SPOT CHECKS WITH ENTERPRISES MENTIONED IN THE SUPPORTING DOCUMENTATION CONCERNING GOS PAYMENTS OF ARREARS IN ORDER TO VERIFY THAT PAYMENTS HAVE BEEN RECEIVED BY THE BENEFICIARIES CONCERNED. THE GOS WILL PROVIDE, AT THE REQUEST OF USAID, ALL NECESSARY INFORMATION CONCERNING THE BENEFICIARIES OF PAYMENTS MADE UNDER THE ESF-VI GRANT.

(J) INTEREST EARNED AND ACCRUED ON FUNDS IN THE CFAF SPECIAL ACCOUNT SHALL BE PROGRAMMED AND USED FOR THE SAME PURPOSES AS THE PRINCIPAL AMOUNT.

6. DAY-TO-DAY OVERSIGHT OF THE SPECIAL ACCOUNT IS EXERCISED BY THOMAS WALSH, MISSION CONTROLLER. BUSHNELL##

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|--|--------------------------|--|---|
| AID 1180-2 (1-68) FR | FINANCING REQUEST | 2. AMOUNT - U.S. DOLLARS Previous Amount <u>5,000,000</u> Increase <u>4,700,000</u> Decrease _____ Total <u>9,700,000</u> | 4. REQUEST NO. 002 5. <input checked="" type="checkbox"/> ORIGINAL OR AMENDMENT NO. 6. AGREEMENT NO. 685-K-607 |
| TO: DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT WASHINGTON, D. C. 20523 | | 3. AREA OF SOURCE AND CODE N/A | 7. CPI NO. N/A |
| FROM: Republic of Senegal Ministry of Economy and Finance | | | |

8. METHOD OF FINANCING

LETTER OF COMMITMENT (L/COM)
U.S. BANKING INSTITUTION APPROVED APPLICANT

PROCUREMENT AUTHORIZATION/PURCHASE REQUISITION (PA/PR)
 NAME OF U.S. GOVERNMENT AGENCY: _____

OTHER METHOD OF FINANCING: (SPECIFY)
 Cash Transfer to BCEAO
 Account No. 36-058-204
 Citibank, New York, N.Y.

9. ITEMS TO BE FINANCED AND AID COMMODITY CODES

N/A

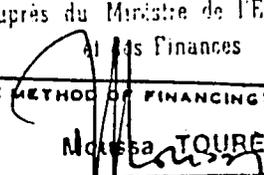
10. CONTRACTING, SHIPPING, OR OTHER PERTINENT DATES

N/A

11. SPECIAL RESTRICTIONS WITHIN TERMS OF ABOVE-REFERENCED CPI

N/A

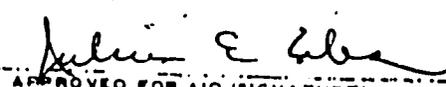
12. THE METHOD OF FINANCING AS DESCRIBED ABOVE IS HEREBY REQUESTED

Le Ministre Délégué
 Auprès du Ministre de l'Economie
 et des Finances

Moussa TOURE

2 DEC. 1989

BORROWER/GRANTEE AUTHORIZED SIGNATURE DATE

13. CONDITIONS PRECEDENT TO DISBURSEMENT HAVING BEEN MET, THIS FINANCING REQUEST IS HEREBY APPROVED FOR IMPLEMENTATION


APPROVED FOR AID SIGNATURE

12/1/89
DATE

USAID/Senegal Director
(TITLE)