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AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.	685-0288 (685-K-604)
2. COUNTRY	SENEGAL
3. CATEGORY	PROGRAM GRANT
4. DATE	DECEMBER, 1985
5. TO:	S.J. LITTLEFIELD, DIRECTOR USAID/SENEGAL
6. OYB CHANGE NO.	
7. FROM	JOEL SCHLESINGER PROJECT DEVELOPMENT OFFICER
8. OYB INCREASE	
TO BE TAKEN FROM:	
9. APPROVAL REQUESTED FOR COMMITMENT OF	$15,000,000
10. APPROPRIATION -	GESA-86-31685-KG31 (637-61-685-00-50-61)
11. TYPE FUNDING	☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT	☐ INFORMAL ☐ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD	N.A.
14. TRANSACTION ELIGIBILITY DATE	N.A.
15. COMMODITIES FINANCED	

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:	$15,000,000	Other:	

A Program Grant in an amount not to exceed fifteen million U.S. dollars ($15,000,000) to the Republic of Senegal, subject to the conditions, covenants and other terms set forth in this PAAD is authorized.

This Program Grant represents U.S. assistance to the Government of Senegal (GOS) in the form of budgetary assistance provided by Economic Support Funds. The purpose of this program is to assist Senegal to maintain economic and political stability while promoting structural and agricultural reforms needed to redress the underlying problems of the economy.

Disbursement may be made to the GOS account in the Chase-Manhattan Bank, New York, in two tranches, being $10,000,000 and 5,000,000 respectively.

Conditions Precedent and Covenants:

In addition to the standard conditions precedent (legal opinion, specimen signatures, and designation of authorized representatives), the following conditions precedent and covenants will in substance be included in the Grant Agreement:

18. CLEARANCES	DATE
REG/DP	
REG/GC	
AA/PPC	
M/FM	
M/SER/COM	
AA/PRE	

19. ACTION ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE

DATE Dec 27, 1985

S.J. LITTLEFIELD, DIRECTOR

TITLE

CLASSIFICATION:

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SENEGAL PROGRAM ASSISTANCE APPROVAL DOCUMENT
ECONOMIC SUPPORT FUND, 685-0288 (685-K-604)

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1. CONDITIONS PRECEDENT

Prior to the first disbursement under the grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

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);

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

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").

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

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. (Evidence of satisfactory implementation of this Condition Precedent has been presented in the form of a letter from Minister of State Jean Collin to the U.S. Ambassador). An appropriate implementation letter will formally communicate A.I.D. acceptance of this.

C. Agro-Industry: The Grantee agrees to give A.I.D. evidence that:

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). Evidence of satisfactory implementation of this Condition Precedent has been provided in the form of a letter from the Presidency to the U.S. Ambassador. An appropriate implementation letter will formally communicate A.I.D. acceptance of this.

2. Agro-industries (cotton and rice) will reimburse all outstanding crop credit for the 1985 crop year. The Société Nationale de Commercialisation des Oléagineux du Sénégal (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. Written confirmation to this effect will be obtained from the BCEAO. Pending the availability of funds and appropriate approvals, the second tranche of dollars five million will be disbursed after the Société Electrique 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.

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. (Evidence of satisfactory implementation of this Condition Precedent has been provided in the form of a letter from the Ministry of Rural Development to the Ministry of Planning and Cooperation and has been accepted by USAID).

2. SPECIAL COVENANTS

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);

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,

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;

4. To ensure that the CPSP will have paid a cummulative 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;

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).

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;

2. To complete before December 1986 a study on the feasibility of replacing price equalization by a fiscal instrument (e.g. export taxes, tax rebates, internal taxes);

3. To covenant to perform or cause to perform before December 1986 a detailed review of the production costs of agro-industry being subsidized by the CPSP with a view to establishing by March 1987 a timetable, including all sectors covered by the CPSP, for reducing the CPSP's price supports;

4. To replace, by July 1986, price equalization on imported rice with a special tax that will be readjusted periodically; and

5. To enforce timely payment, at least through CY 1986, by oil crushing firms of all customs duties and taxes on imported vegetable oil and on exported groundnut oil.

C. 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;

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.

3. That an independent detailed audit of SONACOS will be completed before the end December 1986, of its processing and management units; and

4. That oil crushing firms will develop a cost efficient means of managing a peanut security stock beginning the 1986/87 crop year.

D. Funds Release: The Grantee agrees that local currency funds placed in the Special Account will be allocated to items in the National Budget of the Grantee only upon mutual agreement between A.I.D. and the Grantee on use of these funds. A written letter from the Director, USAID/Senegal to the Treasurer of the Central Bank of the Grantee will constitute A.I.D.'s concurrence in the use of funds and permit their release.

ABBREVIATIONS AND ACRONYMS*

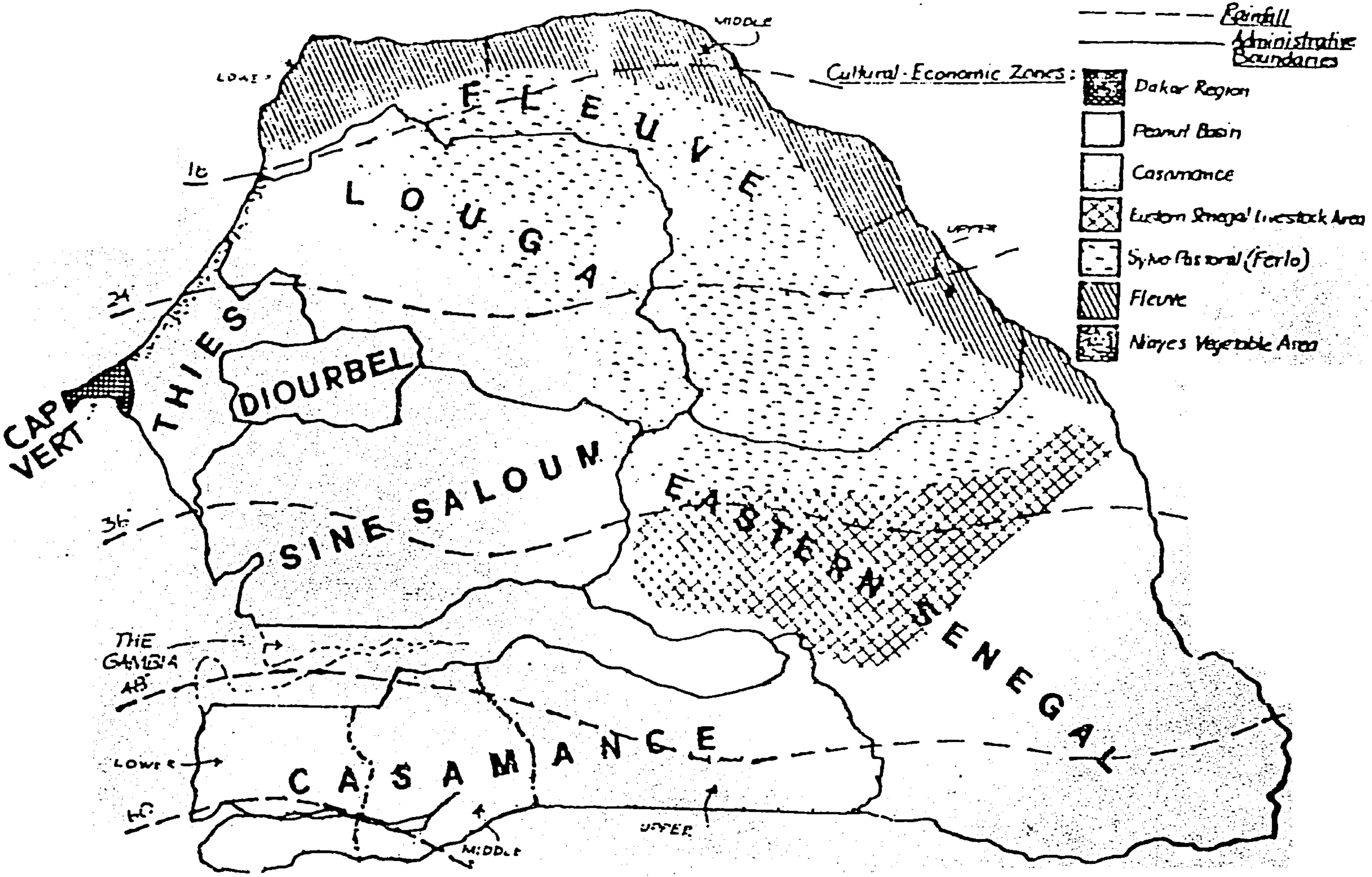
AID	Agency for International Development
BCEAO	Banque Centrale pour les Etats de l'Afrique de l'Ouest (Central Bank for West African States)
BNDS	Banque Nationale pour le Développement du Sénégal (Senegal National Development Bank)
BOP	Balance of Payments
CCCE	Caisse Centrale de Cooperation Economique (French AID fund)
CDSS	Country Development Strategy Statem...
CFAF	Monetary unit of Senegal
CIP	Commodity Import Program
CNCAS	Caisse Nationale de Credit Agricole (National Agriculture Credit Bank of Senegal)
CPSP	Caisse de Péréquation et de Stabilisation des Prix (Price Equalization and Stabilization Fund)
ECPR	Executive Committee project Review
GDP	Gross Domestic Product
GNP	Gross National Product
GOS	Government of Senegal
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
ISRA	Institut Sénégalais de Recherches Agricoles (Senegalese Institute for Agriculture Research)
l/c	local currency
ONCAD	Office National de Cooperation et d'Assistance au Developpement (National Office for Cooperation and Development Assistance)
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Proposal.
RDA	Regional Development Agencies

* In this PAAD, 400 CFA = $1 USD

SAED	Societé d'Amenagement et d'Exploitation des Terres au Delta au Fleuve Sénégal (Organization for the Improvement and Development of the Delta Lands of the Senegal River)
SAL	Structural Adjustment Loan
SAR	Société Africaine de Raffinage
SDR	Special Drawing Rights
SEIB	Société Electrique et Industrielle du Baol
SODEFITEX	Société de Développement des Fibres Textiles (Textile Fiber Development Organization)
SODESP	Société de Développement de l'Elevage dans la Zone Sylvo-Pastorale (Sylvo Pastoral Livestock Development Organization)
SODEVA	Société de Développement et de Vulgarisation Agricole (Agriculture Extension and Development Organization)
SOMIVAC	Société pour la Mise en Valeur de la Casamance (Casamance Development Organization)
SONACOS	Société Nationale de Commercialisation des Oléagineux
SONAR	Société Nationale d'Approvisionnement pour Le Monde Rural
WAMU	West African Monetary Union

SENEGAL

Administrative Boundaries - Cultural-Economic Zones - Rainfall



I. Summary

1. Recommendation

USAID/Senegal recommends authorization of an Economic Support Fund (ESF) Program Grant of $15.0 million to the Republic of Senegal. The entire grant, in the form of a cash transfer, will be obligated in FY 1986 and disbursed in two separate tranches ($10.0 million and $5.0 million) when conditions precedent to each disbursement have been met and when the second tranch of $5.0 million has been made available.

2. Grantee

The Grantee will be the Government of Senegal (GOS). The Ministry of Economy and Finance will act as the principal implementing agency.

3. Program Summary

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

The need for program assistance to Senegal will continue throughout the USG FY 1986-FY 1988 period; based on the most recent figures of the IMF, the total financing requirements of the GOS on current and capital budgets from internal and external sources for GOS FY 1986 alone are estimated to be FCFA 84.3 billion or $ 210.8 million ($1=400 CFAF). Senegal has compiled a solid record of implementing policy changes over the past two years but hard structural adjustment lies ahead. The Mission proposes to support these efforts through a multi-year ESF program. In GOS FY 1986, the GOS will contribute approximately 17 percent to meeting its own financing requirement gap through special internal financing procedures.

A fruitful coordination based on inter-related conditionality has been established among the principal donors to Senegal: the IMF, France, the World Bank, the EEC and USAID. The purpose of this coordination is to reduce the dominance of the GOS in the economy. The results of coordination have been most evident over the past two years as the GOS undertook a series of politically and socially sensitive reforms.

The ECPR held in Washington on November 27, 1985 to review the Program Assistance Initial Proposal (PAIP) for this ESF program concurred that the ESF program must maintain a multi-year focus as a basis for developing a longer-term approach with the GOS aimed at resolving Senegal's structural problems. The program will, however, be based on annual and separate authorizations. Assuming that funding levels remain under $20.0 million, AID/Washington preference is to continue authorization of future PAADs in the field in accordance with DOA 140, revised. However, the USAID will submit, by cable, an annual progress report at the conclusion of each USG fiscal year. This report will (1) describe GOS performance in implementing the previous year's conditions and covenants, (2) set forth conditionality that appears likely for the coming year and (3) discuss plans for changes in the program's long-term objectives compared to what was contemplated in the current year's PAAD.

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

The USAID has determined that the cash transfer mechanism is the most appropriate manner by which to achieve the program purpose. Upon certification by the Mission Director that the GOS has met the conditions precedent to each of two planned disbursements, the funds will be released in accordance with mutual GOS and AID agreement.

It is anticipated that the GOS will utilize local currencies established in a special account to stimulate growth in the economy through reimbursement of arrears or other measures which will reliquify the private and banking sectors.

4. Conditions Precedent and Covenants

The $15.0 million grant is provided to the GOS in return for implementation of a series of policy change conditions described in Section IV and listed in detail in Annex 11 of this PAAD. These reforms are directed to the agricultural sector and promote measures which will substantially reduce GOS involvement in the sector and encourage private sector growth.

In addition to the policy change conditionality, the GOS will establish a special account in the Central Bank and deposit therein currency of the GOS in amounts equal to dollar disbursements under the grant. Funds in the special account may be used for budget support purposes as are mutually agreed upon by AID and the GOS.

5. Waivers

There are no waivers required for implementation of this program.

II. Previous Economic Support Fund Programs

1. Amount and Use of Funds

A total of $30.0 million of assistance was provided under the three previous ESF programs: ESF I for $5.0 million (full amount as direct reimbursement CIP), was authorized in July 1983 and fully disbursed by July 1984; the ESF II cash transfer of $ 10.0 million was authorized and disbursed in December 1983; the ESF III cash transfer of $15.0 million was authorized and disbursed in December 1984.

In all three instances, dollar funds were made available to the GOS in return for specific policy changes. Local currency was subsequently used by the GOS to meet urgent fiscal requirements to reimburse the Senegalese National Development Bank (BNDS) for arrears on outstanding crop credit accumulated in 1981/82 and 1982/83. This debt, incurred to the BNDS in order to provide funds for the purchase of the peanut harvests, totalled $80.0 million. Local currency derived from the ESF program accounted for 37.5 percent of the reimbursement, the balance being covered by other external donors. The reimbursement of these arrears enabled the BNDS to remain solvent.

2. Conditionality

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 to concentration on longer term structural reform in the agricultural sector aimed at (1) eliminating GOS dominance of the sector, (2) reducing GOS expenditures, (3) increasing domestic resource mobilization and (4) recapitalizing the banking sector. A complete list of conditionality associated with the USAID/Senegal non-project assistance program and its current status is included in Appendix 4. The GOS has complied satisfactorily with all major USAID/Senegal conditionality related to the agricultural sector.

The USAID believes that the agricultural sector has been and remains the pivotal point with respect to the economic health of Senegal. The importance of 70 percent of the population producing only between 7 percent and 20 percent of GDP over the past decade is impossible to ignore; agricultural exports have provided (and still need to provide) a significant portion of Senegal's foreign exchange earnings (ranging from a high of 83 percent in 1961 to a low of 7 percent in 1981); and the decline since Independence in per capita food production represents one of Senegal's most threatening economic and political problems.

In discussions leading to the FY 1985 $15.0 million ESF program, the Mission informed the GOS of four areas in the agricultural sector in which it wished to see progress as a precondition to consideration of a multi-year ESF program. These areas were (a) the fertilizer sub-sector, (b) the peanut sector, (c) cereals policy reform and (d) rural development agency phase-down including clarification of SAED's role. In each of these areas the GOS has made progress.

In the fertilizer sub-sector, the GOS has dropped the ineffective system of retained earnings as we requested, and a cash sales program has been established. The GOS has also agreed to a three-year progressive elimination of the fertilizer subsidy. The abolition of the parastatal responsible for fertilizer distribution (SONAR) has cleared the way for the private sector to distribute fertilizer in the next planting season. Early indications of private sector interest in this activity are now visible.

The peanut sector has seen major changes. The GOS has halved the fixed cost payments to the oil crushing firms this year and will eliminate them next year. Loss of these subsidies must be accompanied by reduced costs and more efficient operations. In addition, farmers and the oil crushing firms have been obliged to take on more responsibility for retaining or distributing seed stocks for the most recent and future crop years, although this shift of responsibility has not occured without problems.

In the cereals sector, the GOS has set a CFAF 70/kg price for whole grain millet and that price is being applied as a floor price instead of a fixed price. Restrictions have been removed on the purchase, storage and sale of cereals (other than rice).

With respect to the phasing-down of RDAs, the GOS has liquidated SONAR and STN (national market gardening) and has reduced the staff of SODEVA (peanut basin) by 55 percent. New management at the CPSP has led to collection of a portion of outstanding credit sale debts, repayment of bank and partial customs arrears, and restoration of overall financial equilibrium. Nonetheless, a thorough reorganization of the CPSP's roles and responsibilities remains to be completed. As for SAED's role in particular, the GOS and SAED have signed a new performance contract limiting SAED's responsibilities. The GOS has also disbursed CFAF 698 million out of total arrears to RDAs of CFAF 1,474 million accrued in the period FY 82/83 and FY 83/84. For FY 85/86 the GOS, in accordance with USAID conditionality of December 1984, has inscribed a line item for RDAs in its operating budget. (In the past the GOS has relied on the donors almost completely to finance certain RDAs.)

3. Impact of Previous Programs

The meeting of the conditionality associated with past non-project assistance programs by the GOS has accounted for many significant policy changes (see Annex 4). Taken as a whole, the conditionality of these programs has maintained pressure on the GOS to keep up the pace of sensitive and difficult-to-implement policy changes. The USAID non-project assistance program, in conjunction with IMF, World Bank and French programs, has resulted in two major policy revision statements, the New Agricultural Policy (NAP) of April 1984 and the Medium and Long-term Economic Program of December 1984, which call for dramatic reductions in State domination of the economy and increased efficiency of production.

Stabilization measures have resulted over the past two years in: a 50 percent reduction in the budget deficit; a 45 percent reduction in the balance of payment deficit; repayment of last year's crop credit; elimination or reduction of subsidies on major consumer staples (bread, rice, sugar, cooking oil, petroleum products); elimination of subsidies to the peanut oil crushing firms; transfer of peanut seed stock to the oil crushing firms or farmers; abolition of two RDAs (SONAR and STN), a 55 percent reduction in another (SODEVA) and negotiations to limit others; and stabilization of the public wage bill.

Despite this progress, the situation remains serious. Section III below describes the current macroeconomic and agricultural situations and sets forth the proposed areas of conditionality for this ESF program. These conditions are intended to emphasize the need to move from short-term stabilization measures to conditions that promote long-term growth.

III. Current Economic Situation and Status with Respect to Policy Reforms

1. Major Component of the World Bank's SAC

The World Bank has now completed negotiations with the GOS for a dollars 70 million Structural Adjustment Credit (SAC). Board approval is expected in late January or early February. The loan will be available in two distinct tranches. Local currency will be generated from non-luxury imports and uses must be determined jointly by the GOS and the World Bank. At this point in time the World Bank intends to remain flexible regarding the uses of local currency. The equivalent of U.S. dollars 18.75 million have been committed for uses contained in the IMF's Government Financial Operations Table for the current Senegalese fiscal year which runs through June 30, 1985 (see Annex 5).

a. Agricultural Sector

SAC conditionality covers five specific areas: (1) promoting agricultural production; (2) reform of industrial incentives; (3) public investment policy; (4) reform of the parapublic sector and (5) improving public finances. In the agricultural sector reform measures focus on the cereals sector, input pricing, phasing-out of RDAs and groundnut sector reform. A cereals production plan is to be presented in April 1986 and will include: (a) input distribution, (b) extension services; (c) organisation of markets and (d) pricing policy including a support mechanism for a floor price. The GOS has agreed to a policy of protection for domestically produced cereals through a combination of an overall import quota on rice and wheat and of a special tax on imported rice.

Subsidies on inputs (fertilizer and seeds) will be eliminated by the 1989/90 crop year and distribution will be progressively transferred to the private sector as RDAs phase-out of direct production activities. Prices for inputs will reflect the real costs of transport to the various regions of the country. The GOS has agreed that no Treasury resources will be utilized to finance a fertilizer subsidy. RDAs will be specialized in planning and monitoring of extension services and the GOS subsidy will progressively decrease as RDAs' activities become more focussed. The personnel of RDAs will be decreased accordingly and the World Bank has contributed to a special fund designed to finance the reconversion of personnel that have lost employment.

In the groundnut sector the GOS is expected to implement the reforms announced by President Diouf last April. an action plan for groundnut seeds is to be formulated before June 30, 1986 and SONACOS will be responsible for maintaining a security seed stock of 50,000 MT. By the 1986/87 crop year the GOS will have withdrawn from the seed sector with the exception of selected seeds. By the 1989/90 crop year a GOS subsidy on groundnut seeds must be eliminated.

b. Industrial Incentives

This is a major component of the World Bank's SAC and one where other donors are not particularly active. The objectives of reform are to: (1) reduce and harmonize the tariff structure through elimination of quantitative restructures and a substantial reduction in customs duties; (2)

improve export promotion instruments and in particular the drawback system, export subsidies which will be based on domestic value added; (3) generalize the application of import taxes to all companies; (4) reduce price controls and (5) increase flexibility with respect to labor laws applicable to companies.

Immediate measures which must be taken include: (1) a freeze on products subject to quotas; (2) elimination of requirement for prior GOS authorization to import goods which are not produced locally; (3) a reduction in tariffs for certain selected products; (4) introduction of a system of endorsable drawbacks by July 1, 1986; (5) elimination of prior authorization for at least one sector by July 1986 and (6) revision of procedures for hiring/firing and renewing work contracts to introduce greater flexibility. A new industrial policy is also to be announced by February 1986.

c. Public Investment Policy

The GOS is preparing a biannual public investment program for 1985/86 and 1986/87 which will be limited to CFAF 300 billion. Certain ambitious industrial projects will be postponed and a new strategy for the railway sector is being defined. The program will include more systematic calculations of recurrent cost implications of projects particularly in the education sector.

A new rolling three-year investment programming system is being introduced which will reinforce the relationship between the planning and budgetary processing.

d. Parapublic Sector Reform

The objectives of parapublic sector reform are: (1) progressive disengagement of GOS especially where activities can be done more efficiently by the private sector; (2) improvement in the management of essential parapublics through simplification of GOS control and supervision and the introduction of performance standards and (3) a 50 percent reduction in the level of direct subsidies to parapublics. The action program provides for cession, establishment of a list of enterprises that can be privatized or liquidated by end of December 1985, study of the reciprocal debts of the GOS and parapublics which should include a repayment schedule, continued use of contract of public services to be completed before June 1986 and completion of the terms of reference for a diagnostic study of SONACOS/SEIB to be submitted before end December 1985.

e. Improving Public Finances

The World Bank is requiring a detailed sectoral analysis of operating expenditures for the FY 1981/82 through FY 1985/86 period. In addition a survey of all direct budgetary subsidies is being made and these will be presented more clearly in future budgets. The GOS has also agreed to: (1) simplify the tax system through a revision of the fiscal code; (2) revise rates of customs duties as well as the customs code; (3) examine the feasibility of introducing a real estate registry system and (4) examine most appropriate means of computurizing customs.

Targets have also been set for: (1) the reimbursement of arrears on credit sales for imported rice and on customs duties; (2) reduction in GOS arrears to the private sector; (3) reduction in GOS arrears on ONCAD debt; (4) reduction in the ratio of salary expenditures to fiscal revenue and (4) payment to GOS of external debt services owed by parastatals even if loans have been rescheduled in the contect of the Paris Club.

Senegal has been pursuing economic stabilization and reform since 1980, primarily in the context of a series of IMF Standby Agreements. In 1984 the GOS formulated two major policy statements: (a) the New Agricultural Policy and (b) a Medium and Long-Term Economic Action Plan. The New Agricultural Policy aims at (a) reduction of the role of the parastatal rural development agencies, (b) increased efficiency in the supply of agricultural inputs, (c) new crop production strategies, (d) a greater share for rural development in the allocation of investment resources, and (e) environmental protection and conservation. The Medium and Long Term Economic Program aims at (a) improving fiscal performance and management of government agencies and public sector enterprises, (b) strengthening the programming and administration of public investments, and (c) supporting economic reform by providing improved incentives to private sector activity in agriculture, the fishing industry, tourism, and other production for export or import substitution. Following the adoption of these important policy documents, a Consultative Group meeting was held in Paris in December 1984. A major conclusion of the meeting was that Senegal, on the basis of its proposed policy reform package, warranted significant non-project assistance and needs were estimated to be $250 million per year. The World Bank committed itself to design a new $60.0 million Structural Adjustment Credit (SAC), and the conclusion of SAC negotiations is expected to be completed by the end of December 1985.

2. The Macroeconomic Situation

Over the past twelve months the Government of Senegal (GOS) has continued to implement the short-term stabilization measures prescribed by the IMF and endorsed by other major donors of budgetary support (France, Saudi Arabia, USAID). Prices for basic consumer goods such as rice, bread, cooking oil and sugar have been increased significantly, with most recent price increases affecting rice (by 23 percent in January 1985) and bread (by 23 percent in October 1985). Credit expansion has been successfully contained with the value of outstanding domestic credit increasing by less than 5 percent as compared to an average annual increase of 16 percent from mid-1979 to mid -1983. (see Table 3 in Annex 10). The public sector wage bill has been stabilized through zero growth in the number of civil servants and only 6.6 percent nominal growth in expenditures on salaries. The tax rate on imports has been successively increased (5 times over the past 7 years) as a means of containing imports and the GOS has continued to make concerted efforts to reimburse ex-ONCAD debt (CFAF 13.0 billion or $32.5 million since January 1985) and to reduce the stock of arrears to the private sector (CFAF 9.6 billion or $24 million since January 1985). GOS expenditures on materials, transfers and supplies actually decreased from FY 1983/84 to FY 1985/86 and new external borrowing with maturities of between 1 - 12 years has been held within the limits set by the IMF.(See Table 4 in Annex 10).

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On the surface the implementation of the above stabilization measures has led to a rather spectacular improvement in the macroeconomic aggregates. The overall fiscal deficit as a percentage of GDP (on a commitment basis) decreased by 50 percent from 1982/83 to 1984/85 while the balance of payments deficit as a percentage of GDP declined by 45 percent between 1982/83 and 1984/85. (see Tables 1 and 2 in Annex 10). However, these results disguise the fact that the underlying structural budgetary and balance of payments problems persist. Basically short-term techniques have been used to reduce pressure on the budget and balance of payments. These include: (1) annual debt reschedulings, (2) emergency budgetary support, (3) freezes on hiring and public sector expenditures and (4) temporary recourse to the short-term cash flow financing mechanisms provided by certain deposits of parapublics with the banking sector. Such techniques do not resolve the underlying problem.

A vivid illustration of the pertinence of the above analysis is the nature of the current severe liquidity crisis faced by the GOS. Between early June 1985 (time of the last official IMF Mission) and October, the cash flow position has altered from one of relative comfort to one of acute crisis. Explanations of the crisis include: (1) a disturbing decline in tax revenue with an observed shortfall of CFAF 8.9 billion or $22.3 million in FY 1984/85 and a shortfall of CFAF 9.4 billion or $23.5 million in the first quarter of FY 1985/86; (2) inability of Senegal to reschedule its debt with Arab donors which has led to a shortfall of $9 million in FY 1984/85 and $13 million in FY 1985/86, and (3) a greater than projected deficit in the groundnut sector for crop year 1984/85 due to a decline in the international price of groundnut oil during recent months. The shortfalls detailed above have been partially financed through an accumulation of external debt arrears which are currently estimated to be CFAF 16.0 billion or $40 million.

Future reform measures designed to address Senegal's budgetary balance of payments position must deal directly with structural distortions. Thus, reliance on demand management measures to reduce consumption as a percentage of GDP (which remains high in Senegal at 93 percent) must be complemented with supply side reforms and in particular with efforts to increase domestic resource mobilization from taxes and savings channeled through the banking sector. Furthermore, resources must be directed to productive activities partially through improved financial intermediation by the banking sector and the introduction of appropriate fiscal incentives. Intimately linked to increased resource mobilization is the necessity of introducing a rational system for allocating public resources through an effective budget process. The current system makes it impossible to determine the sectoral allocation of public resources and to assess the relative merits of various expenditures. The public sector wage bill has been contained but means have to be found of increasing the productivity of the civil service through appropriate remuneration for qualified professionals. Failure to address this question will result in increasing problems of morale and temptation to supplement earnings through the exercise of arbitrary bureaucratic prerogatives.

Another critical reform area involves a rethinking of the manner in which crop credit is extended to purchasers of certain agricultural crops especially groundnuts, cotton and domestically produced rice. Under the current system purchasing agents do not reimburse credit for the previous crop year before drawing new credit. This practice is in violation of Central Bank regulations and in essence holds the GOS hostage for payment of subsidies before crop credit is fully reimbursed. The fact that reimbursement of outstanding crop credit is generally an IMF target adds pressure on the GOS to make hasty and sometimes unjustified subsidy payments in return for purchasers promises to reimburse crop credit. The disengagement of the GOS from the groundnut sector and the phasing-down of SAED's role in purchasing rice should alleviate this problem over the next three years. For estimates of this year's deficit on the groundnut sector see Tables 8 - 10 in Annex 10.

The final structural reform which is clearly the most critical one to Senegal's prospects for improved economic performance, is the need for a basic change in the price-setting mechanism. The practice of setting fixed prices for: (a) purchase of agricultural crops; (b) sales prices of basic consumer staples such as rice, cooking oil, and bread and sugar and (c) sales prices of certain strategic goods such as cement has caused major distortions in the economy which have in turn promoted thriving contraband activities and have led to unsustainable deficits for the Price Equalization and Stabilization Fund (the CPSP).

The World Bank and USAID are the two major donors attempting to deal with these basic structural problems at the macro-economic level in the context of non-project support. The World Bank as part of its SAC is requiring reforms in: (1) the budgetary process; (2) tax structure and improved tax administration, public sector wage policy; (3) incentives for allocation of resources to productive sectors of the economy; (4) the price setting mechanism for agricultural producer prices and inputs and (5) a general reduction in GOS subsidies to the agricultural and industrial sectors. USAID/Senegal, through its proposed AEPRP will also be leveraging reforms in the fiscal and banking systems designed to improve domestic resource mobilization. In addition, conditionality set out for this multi-year ESF focuses on problems of: (a) the price-setting mechanism for basic staples and producer prices; (b) GOS subsidies to inefficient agro-businesses through the CPSP and (c) the need for timely reimbursement of crop credit.

3. Agricultural Situation

Real progress in the reform process, which is more manageable in a sectoral context than at the macro-economic level, has been more impressive in the agricultural sector. Nevertheless, continued progress in directions set by the New Agricultural Policy (NAP) will be dependent, to a large extent, on achievements which can be obtained at the macro-economic level. For example, privatization of agricultural input distribution and marketing for cereals is possible only if adequate bank credit is made available for these purposes. Credit availability will require certain changes in banking practices (e.g., interest rate spreads, dependence on guarantees), improved performance by purchasers of agricultural crops with respect to reimbursement of crop credit and a general rehabilitation of the banks most equipped to lend to agriculture such as the National Development Bank (BNDS). Similarly, a lasting change in crop mix (from groundnuts to cowpeas, millet and maize) will depend on the GOS's effective reduction in support to the groundnut sector.

In terms of agricultural reform, Senegal is in the critical transition between domination by the GOS and a move towards privatization. If this process is not carefully managed and therefore leads to major disruptions in agricultural production the GOS will find it difficult to resist the temptation to move back into a lead role. The 1985/86 crop year represents a propitious beginning for the privatization process but good luck in the form of reasonable and widely distributed rainfall has certainly been a major element in the success.

As requested by the donors the GOS eliminated two rural development agencies (RDAs), SONAR and STN, in May of this year. In addition the staff of SODEVA (RDA in the groundnut basin) was reduced by 55 percent resulting in a loss of employment for somewhat over 1500 employees. A contract plan (i.e., performance contract) was signed in December 1984 between SAED (RDA in the Senegal River Basin) and the GOS. The plan calls for a gradual reduction in the role of SAED in direct production activities. Draft contract-plans are currently under discussion for SODEVA and SOMIVAC (RDA in the Casamance).

With respect to input distribution, major reforms were introduced in April 1985 and were leveraged through CCCE conditionality in connection with budget support loans committed in June. The retained earnings scheme where farmers were taxed to defray some of the costs of GOS provision of inputs was totally abolished. The State financed national groundnut seed stock for free distribution was reduced by 50 percent from 120,000 MT to 60,000 MT and an additional amount of 40,000 MT was made available for sales at cost price. A plan for reorganizing the fertilizer sector (based on a report completed by USAID/Senegal with the cooperation of ISRA-the National Research Institute) was discussed in July 1985.

Producer prices for agricultural crops were increased for the second successive year in April 1985. Although the price increases represent a step in the right direction the final objective is to free up pricing of agricultural produce once effective marketing channels which ensure an element of real competition have been established. Prices for cereals were increased between 17 percent and 83 percent while prices for export crops have been increased by between 30 percent and 50 percent. In September 1985 the GOS announced that producer prices for domestic cereals (except rice) are to be considered floor prices while those for export crops remain fixed prices. Small-scale support mechanisms (through SONACOS - the oil crushing firm for cowpeas and through the CPSP and CSA - (food aid distribution parastatal) for millet and corn have been put in place. The announcement of floor prices for cereals may cause some difficulties if the amount placed on the market is too large. However, recent field trips made by the Mission's Agricultural office indicate that the floor price is being maintained with only modest GOS purchases. A major part of future conditionality under this multi-year ESF will be to encourage the GOS to move towards a more flexible pricing mechanism which will be linked to variations in production levels.

Marketing of export crops is still largely under GOS control. As part of the groundnut sector reforms certain private sector traders may purchase groundnuts but they are obliged to sell them to SONACOS. As might have been anticipated very few licensed traders have volunteered to participate in this scheme. Cereals are marketed through private traders working under certain restrictions with a limited purchasing role for the GOS through RDAs and CSA. Cotton and domestically-produced rice are still marketed through parastatals, SODEFITEX and SAED respectively. According to GOS estimates for production this crop year, the reforms in the groundnut sector announced last spring have had the desired impact of encouraging farmers to shift from groundnuts into cereals. The areas of cereals planted increased by 45 percent compared to 1984/85. For data regarding agricultural production and estimates of areas planted in cereals versus export crops see Tables 6 and 7 in Annex 10.

The significance of this initial producer response should not be overestimated. First, farmers were anxious to produce cereals to rebuild personal reserves which have been depleted by two successive years of mediocre harvest (1983/84 and 1984/85). Second, farmers were caught by surprise last spring when the GOS announced a 50 percent reduction in the amount of free groundnut seed distribution and did not have significant personal seed reserves. A major factor in determining whether producers will maintain their current emphasis on cereals is whether or not this year's marketing arrangements for cereals will permit them to obtain reasonable prices in the market place. Preliminary data obtained by USAID's agricultural office indicate that at least for the present, announcement of GOS purchases of cowpeas, and millet and maize have increased the price offered by the private sector. Since GOS intervention is limited to 24,000 MT for millet and corn, the floor price cannot be maintained unless sufficient commercial markets are found for producers' surplus output.

A major reform currently under discussion which will definitely affect the future of cereals production is that of the privatization and liberalization of pricing of imported rice. Through privatization it is expected that the price of rice will be "depoliticized" and that a relatively high price of rice reflecting domestic interregional transport costs will encourage consumers to shift in favor of consumption of domestic cereals outside of the Dakar area.

The PL-480 Title I Program and Agricultural Production Support Project (APS) are designed to promote continued reform in the agricultural sector. Conditionality in the encourages continued phasing-out of production activities of the RDAs, further liberalization of agricultural marketing, and gradual introduction of more flexible producer prices for cereals and for export crops. The World Bank's SAC deals with many of the same issues but at a more general level. This is understandable given that the Bank's SAC also covers the industrial sector, programming for investment, the budgetary process, tax reform, the parapublic sector and salary incentives in the civil service.

IV. Proposed ESF IV Program Description

1. Amount and Duration

The need for program assistance to Senegal will continue throughout the USG FY 1986-FY 1988 period; based on the most recent figures of the IMF, the total financing requirements of the GOS on current and capital budgets from internal and external sources for GOS FY 1986 alone are estimated to be FCFA 84.3 billion or $ 210.8 million ($1=400 CFAF). Senegal has compiled a solid record of implementing policy changes over the past two years but hard structural adjustment lies ahead. The Mission proposes to support these efforts through a three-year ESF program. The first year obligation of $15.0 million represents a respectable but modest contribution to meeting Senegal's financing requirement in FY 1986; declining but sizeable needs will remain in GOS FYs 1987 and 1988 requiring additional ESF support. Other donor contributions towards meeting Senegal's GOS FY 1986 financing requirements, listed in Annex 5, equal approximately 76 percent of needed resources.

In USG FY 1983-FY 1985, the Mission authorized its ESF funds on an annual basis. Tied to strict IMF deadlines, the program tended to limit policy dialogue to more immediate problems, focussing attention of policy makers on short-term measures. By decoupling disbursements from IMF schedules, the Mission can better adjust the timing and flow of funds to GOS performance and needs. A longer time frame means the Mission can both (a) establish a sector objective (i.e., oil crushing firms take all necessary measures required to maintain profitability in the face of fluctuating production levels and international prices) and (b) develop interim conditions (i.e., reductions of plant capacity and personnel, introduction of cost accounting to determine the cost efficiency of each unit, development of a financially balanced means of managing peanut security stock, etc.) over succeeding years leading to the sector objective.

The ECPR held in Washington on November 27, 1985 to review the Program Assistance Initial Proposal (PAIP) for this ESF program, concurred that the ESF program should maintain a multi-year focus as a basis for developing a longer-term approach with the GOS aimed at resolving Senegal's structural problems. The program will, however, be based on annual and separate authorizations. Assuming that funding levels remain under $20.0 million, AID/Washington preference is to continue authorization of future PAADs in the field in accordance with DOA 140, revised. Nonetheless, AID/Washington will need some means of reviewing the past year's progress and examining other new or pertinent issues. Therefore, the Mission will submit, by cable, an annual progress report at the conclusion of each USG fiscal year. This report will (1) describe GOS performance in implementing the previous year's conditions and covenants, (2) set forth conditionality which appears likely for the coming year and (3) discuss plans for changes in the program's long-term objectives compared to what was contemplated in the current year's PAAD.

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

2. Transfer Mechanism

This ESF program will provide budgetary support in two disbursements to the GOS. This program differs from previous ESF programs in that the disbursements will no longer be tied specifically to time deadlines established under the IMF standby agreements. Nonetheless the matter of timing remains essential: ESF funds must be available for disbursement when critical budgetary needs arise and when specific items of conditionality have been met.

As the CFA is in effect a convertible currency, there exists little immediate incentive for the private sector to utilize a Commodity Import Program (CIP). Thus the time required to generate local currency could be lengthy and render the program unresponsive to GOS needs. This, in fact, was a lesson learned during the FY 1983 ESF program which was implemented as a CIP.

The Mission has also studied the establishment of a Special Letter of Credit (SLC). At present, imports from the U.S. lack sufficient magnitude or reliability to guarantee rapid generation of funds.

In light of this information, the Mission has concluded that the cash transfer mechanism is the most effective instrument for providing support to the GOS during FY 1986. This conclusion is in line with AID Handbook 4 which states that cash transfers are intended to provide budgetary or balance of payments support "when the particular AID purpose cannot be accomplished through other instruments." However, prior to future ESF programs, the Mission expects to review eligible commodity lists with the GOS to determine if there are potential imports on which to base a commodity program in succeeding years.

3. Implementation Procedure

Following PAAD approval and signature of the Grant Agreement, and in anticipation of the fulfillment of conditions referred to below, a Program Assistance Agreement Abstract will be prepared by the Africa Bureau and forwarded to FM/PAD (the accounting station) for entry into the Agency's records. This Abstract will serve as the obligating document until confirmed copies of the Agreement are received by FM/PAD. The Mission (PRM) will prepare a Financing Request for a Cash Transfer signed by both the Mission Director and a GOS representative. FM/PAD will schedule the payments through the Federal Reserve Electronic Funds Transfer System to the BCEAO Account No. 001,174.5460 in the Chase-Manhattan Bank (CMB) in New York or such other account as designated by the GOS.

Once the deposits are made the BCEAO will, upon to GOS request, create sums equivalent to the transferred dollar funds $15.0 million in CFAF in the "depot du tresor auprès de la BCEAO/Senegal" at the Central Bank in Dakar. Funds from this account are normally released on order from the Treasurer of Senegal. In the event that the Mission Director is unable to determine that Senegal has taken all reasonable measures to comply with the terms and conditions of this ESF program, funds will not be released until such time as the Mission and GOS agree on a new set of conditions for their release. A written letter from the Director of USAID/Senegal to the Treasurer and the Central Bank will constitute Mission concurrence in the use of funds and permit their release.

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a. Audit and 121 (d) considerations

With respect to this ESF program, the Central Bank will provide its guarantee that funds will be utilized only upon mutual agreement between AID and the GOS as to their use. Following release of funds from the special account, USAID will receive a copy of the transfer order showing to whom transfers were made.

The USAID will also check with organizations receiving funds to verify that arrearages have been reduced in amounts equal to that disbursed from the special account. On this basis, the Mission does not anticipate use of a public accounting firm in this program. The Mission further believes that the above elaborated procedures respond to 121 (d) concerns although FAA Section 121 (d) is not applicable to this program.

b.	Implementation Schedule	Action
1.	USAID/DIR authorizes PAAD.	PDO
2.	Telephone AFR/PD/SWAP Cameron Pippett asking that he advise FM that PAAD has been signed and financing request will follow.	PDO
3.	Letter sent to Central Bank asking them to block account pending USAID/DIR letter authorizing release of funds.	ECU
4.	Grant Program Assistance Agreement (GPAA) finalized in French and English.	PRM
5.	GPAA signed by USG/GOS.	PRM
6.	Financing request prepared (PRM) and signed by GOS (ECU)	ECU/PRM
7.	All CP's are satisfied for first disbursement (see Annex 11 for detail).	ECU
8.	Financing request countersigned by USAID/DIR.	PRM
9.	Telephone AFR/PD/SWAP to advise that all documents are signed.	PRM
10.	Financing request cabled to AID/W.	PRM
11.	Funds transferred from U.S. Treasury to BCEAO Account at Chase Manhattan.	AID/W (FM)
12.	Telephone confirmation of transfer (AID/W and BCEAO).	ECU
13.	Mission Director authorizes Central Bank by letter to release funds from blocked account.	ECU
14.	USAID receives copy of transfer order to confirm that funds were allocated as agreed.	ECU

As this implementation schedule requires action of various Mission elements, coordination action will be assigned to the Deputy Director, USAID/Senegal.

4. Use of Funds

The purpose of this $15.0 million dollar ESF grant to Senegal is to assist the GOS to attain economic growth and maintain political stability while undertaking the long-term reforms needed to redress the structural problems of the economy. In return for the ESF grant, the GOS is to implement the policy change conditions described in Section 6 below.

Upon receipt of the dollar funds, the BCEAO will establish a special account, subject to GOS request, and deposit an equivalent sum of CFAF for the account of the GOS based on mutual USG/GOS agreement. CFAF funds created for the three previous ESF programs were employed by the GOS to provide critically needed budgetary support and helped the GOS to meet urgent financial commitments. One direct effect of this budgetary support was to increase liquidities available to the private sector through the banking system over what they otherwise would have been; this is essential to stimulating economic growth in Senegal. For example, due to the inability of the GOS to pay its bills for services provided and the lack of bank credit, many Senegalese businessmen have found it difficult to remain in business let alone expand or create new jobs. Assisting the GOS to meet these obligations will provide needed inflows to the private sector while relieving pressure on the government budget.

It is anticipated that CFAF in the special account will stimulate growth in the economy through reimbursement of arrears or other measures which will reliquify the private and banking sector.

To the maximum extent possible, CFAF use should support areas of conditionality linked to USAID/Senegal's non-project assistance program and support institutions directly responsible for ensuring that appropriate policy decisions are taken and implemented. Illustrative uses are listed below:

a. Support for withdrawal of groundnuts and vegetable oil from the CPSP. This support will enable the CPSP to reconcile its accounts and withdraw from the sector.

b. Liquidity to the banking sector for use in providing credit to production-related enterprises in the private sector.

c. Support for expenditures of RDAs to carry out extension and planning services.

d. Payment of GOS financial obligations to the private sector to stimulate economic activity.

In concurring with Mission objectives for dollar and CFAF transactions, the AID/Washington PAIP ECPR recommended that provisions be made which assure that funds will be used to achieve those objectives. In response, it has been agreed with the GOS that CFAF will be held in a special account at the BCEAO and not released until the Director, USAID/Senegal, agrees to their use.

5. Responses to Concerns Raised at Issues Meeting and the ECPR

An issue involved economic criteria to be utilized to make recommendations to the President regarding a floor price for cereals. Conditionality in this area has been transferred entirely to the PL-480 Title I program which was signed by the U.S. Ambassador and the GOS Minister of Finance on December 17, 1985. In a separate implemention letter which was signed at the same time as the Title I agreement the GOS approved the creation of a working group composed of representatives from the public and private sectors to establish a mechanism for supporting floor prices for cereals and to recommend the level of floor prices based on economic criteria for each crop year beginning in 1986/87. An audit will also be undertaken of this year's GOS purchases of cereals to support the CFAF 70/kg floor price. Due of the first funds the working group will be to determine the criteria for settingthe floor price. USAID intends to take a major role in the deliberations of this Working Group.

Another issue raised relates to provision for a covenant during the first year of the multi-year program stipulating that the GOS would eliminate the monopoly purchasing power of the groundnut processing industry. The Mission has been unable to obtain GOS concurrence on this for the first year; however, it will seek agreement in the context of future years of this multi-year program. A number of justifications for this position were provided by the GOS. First, although liberalization of groundnut marketing remains one of the objectives of groundnut sector reforms the introduction of such a measure must be done prudently in order to avoid a generalized collapse of the groundnut processing industry. This coming year the GOS will be eliminating all direct subsidies which will require significant adjustment from the industry particularly in view of mediocre estimates for this year's groundnut crop. Oil crushing firms are expecting to purchase a maximum of 300,000 MT - 350,000 MT to be compared with total triturating capacity of 700,000 MT. Second, the GOS believes that at least one year of the maintenance of SONACOS' purchasing rights are justified on the grounds that the GOS required SONACOS to merge with SEIB which is in extreme financial difficulty and is carrying a short-term debt estimated to be CFAF 10.0 billion or dollars 26 million. The final argument is that while SONACOS enjoys a monopoly purchasing rights on paper, de facto the situation is different and farmers do have a number of alternatives for disposing of their groundnuts. The parallel market is extremely active and farmers may sell for artisanal crushing or direct consumption. Recent figures prepared by a team of French agricultural economists estimate that the parallel market has accounted for between 5 percent and 33 percent of total production. The primary explanatory variable appears to be the relative competitivity of the official producer price.

The issue concerning the use of covenants for the first year as CP's to the second year was also raised during the Washington review of the PAIP. The Mission has presented a three-year plan for conditionality to the GOS; although, formal review was restricted to the objectives of reform and the first year. The principle incorporated in the conditionality is that the objectives to be obtained with first year covenants are rephrased as CP's for the following year's disbursement. Nevertheless, the Mission preference is to maintain a certain amount of flexibility as conditions may change significantly from one year to the next. The Mission intends to use CP's to disbursement as a means of maintaining real pressure on the GOS for reform. Where reforms are implemented abroad of schedule CP's should be modified to reflect this progress and to apply pressure for additional policy change. Similarly, when the reform process is obstructed by certain unforseen difficulties the CP's should be reassessed and/or maintained based on the Mission's best judgment at the time.

The Mission recognizes the importance of reinforcing its economic analytical capacity in order to sustain its comprehensive approach to economic policy reform. Mission Director Littlefield is currently discussing the Mission's management plan with DAA Richards. Local capacity has been reinforced through the hiring of a Senegalese econometrician.

6. Proposed Conditionality for ESF Program

The objective of USAID's conditionality is to stimulate an appropriate pace of policy reform. While the first year conditionality is firm, second and third year conditions are basically indicative in nature. It is obvious that all of the conditions will not be met precisely on schedule. Where reforms take place more quickly than anticipated, the second and third year conditions will be revised to reflect the Mission's desire to encourage a steady pace of reform. Conversely, in areas where serious obstacles develop, the Mission's objectives may have to be revised to remain consistent with what is feasible. The precise conditions are set out in Annex 11 to this paper. Although the level of specificity may appear to be overwhelming upon an initial inspection, experience in Senegal has demonstrated that donors must be precise with respect to studies and information which must be available to decision-makers when reforms are being considered.

A. Reorganization of the Imported Rice Sector

Donors have been examining the financial implications of the GOS' monopoly control of rice imports through the CPSP since 1982. USAID has financed: (1) an update of Arthur Andersen's analysis of the accounts of rice imports including names and amounts of credit outstanding on sales of rice completed in December 1984 and (2) a technical critique of CPSP's handling of rice imports completed by Kansas State University's Food and Feed Grain Institute in January 1985. Given the extensive use of rice sales as a means of providing patronage to powerful interest groups, USAID decided that the most effective means of cleaning up import operations was to privatize. This privatization was considered important on the following grounds: (1) it could "depoliticize" the price of rice and would force the GOS to make regular price adjustments in order to ensure that rice importing remained profitable: (2) it would, through raising the price of rice, help offset the current bias in favor of imports at the expense of domestic cereals and (3) it would provide considerable revenue for the GOS budget in view of the current differential between the domestic sales price and international prices.

Recent negotiations between the major donors (French, IMF, USAID, and World Bank) and the GOS, held during the week of November 11 1985, and spurred by the need for the World Bank to finalize the evaluation stage for its SAC, have led to what appears to be a major shift in the GOS position in favor of privatization. A transition scheme set up for a two year period provides for private sector participation in rice imports for about 60 percent of the total.

The conditions precedent for USAID conditionality are intended to ensure that CPSP honors all financial arrears to the GOS and private banks thus promoting a smooth transition from the GOS monopoly position to significant private sector involvement. The general objectives of reform in the sector remain unchanged with respect to the matrix presented to the ECPR: (1) complete privatization of rice import operations with the exception of a GOS security stock; (2) elimination of a fixed price for rice with the GOS to be replaced by a variable customs duty; (3) efficient functioning of a GOS security stock; (4) achievement of targets for repayment of arrears and in the future of targets for timely payment of customs duties and internal taxes; and (5) elimination of cross-subsidization of transport costs of rice. In discussions with the GOS at the technical level officials made the point that complete privatization was indeed the final objective but that this should be implemented gradually to prevent disruptions in rice supplies to consumers. The GOS is also committed to maintaining an overall quota on rice imports of 340,000 MT as a means of promoting a shift in consumption from imported rice towards domestically produced cereals. Privatization is to be pursued both through increases in amounts open to competitive bidding and through the sale of all GOS shares in SONADIS (the National distribution company) which will be handling, at least for a 2 - year transition period, a 60,000MT security stock plus 80,000MT to guarantee supply in the regions.

The CP with respect to the reimbursement of arrears on customs duties has been met and even exceeded. According to data received from the CPSP, CFAF 5.085 billion or dollars 13.2 million have already been paid. An additional payment of CFAF 1.042 billion or dollars 2.7 million will be made within the next week bringing the total to CFAF 6.13 billion or dollars 15.9 million. The mission is requesting written confirmation from the GOS customs and treasury departments that above payments have in fact been received.

The CP dealing with the payment of outstanding excess profits owed to the GOS Treasury has also been met since September 30. An additional payment of CFAF 1.0 billion or dollars 2.6 million is expected on Dec. 31 which would bring the total to CFAF 1.5 billion. It is important to maintain pressure on the CPSP throughout the period before rice imports are privatized (June 1985) to ensure that all expected revenue is paid on time. The mission is requesting written confirmation from the GOS Treasury on receipt of these payments.

The third CP with respect to the collection of arrears on credit sales is being modified slightly to reflect difficulties encountered by the CPSP in the collection process. By end of December the CPSP expects to collect CFAF 400 million or dollars 1.04 million instead of CFAF 500 million originally projected. The difficulties in collection are caused by: (1) the lack of responsiveness from the courts; (2) CPSP's status which does not permit it to make direct seizures of property and (3) the length of time required for the resale of property (mainly residential homes) which have been legally transferred to the CPSP to cover bad loans of rice dealers who have declared bankruptcy. The mission is requiring written comfirmation from the public auditor assigned by the GOS to the CPSP that sums have actually been collected.

The first covenant under rice privatization has been modified slightly in the negotiating process to reflect a concern expressed by the Minister of State Jean Collin. The quota system for internal rice distribution will be eliminated beginning in July 1986, but the GOS reserves the right to designate a specific wholesaler to distribute rice in the event of a severe rice shortage in any given region. The other covenants remain unchanged. The GOS has already announced that it will gradually privatize rice beginning in June 1986. The CPSP has confirmed its intention of paying at least a cummulated total of CFAF 10 billion or dollars 26 million in customs duties on rice imports before the end of June 1986. The CPSP will attempt to collect an additional CFAF 400 million in arrears on credit sales before end June 1986. The retail price of rice will be modified by July 1986 to reflect transport costs to the regions. A mechanism for managing the GOS security/regulating stock will be functional before July 1986. By July 1986 a reduction in the staff of the CPSP will be made in response to the privatization and transfer of rice import operations. The final reconciliation of the accounts of the CPSP will be completed before April 1986 thus facilitating the legal/financial process of taking the imported rice and groundnut sectors out of the CPSP.

B. Phasing-Out of Price Equalization

While the World Bank's SAC calls for price liberalization and a progressive reduction in the effective rate of protection of the industrial sector it does not address the implications of these reforms for the CPSP which is the principal instrument by which the GOS taxes or subsidizes major agro-industries such as cotton, groundnuts, flour millers, and the sugar refinery. However the World Bank agrees with USAID that the economic utility of this institution is questionable. As a correspondent of the Treasury the CPSP is required to turn any receipts over to the GOS. On the other hand, when resources are required to pay out subsidies to various industries the Treasury never has the money to allocate to the CPSP. Furthermore, CPSP's commitment to support prices for consumer staples and/or fixed margins to agro-businesses is entirely open ended which has resulted in the accumulation of sizable debts. A case in point is the build-up of CFAF 32.0 billion or $80 million in debt to oil crushing firms (1981/82 and 1982/83) which was finally paid off by donors in December 1983.

Three important decisions have taken place in the recent past which tend to reinforce the view that the CPSP should be phased-out: (1) the tomato industry was permitted to leave the CPSP in 1983; (2) President Diouf's reform of the groundnut sector, if taken to its logical conclusion, would involve the elimination of price equalization on groundnuts and imported vegetable oil and (3) the GOS has agreed to replace price equalization for rice imports with a variable tax on imports to be paid directly to the Treasury.

Objectives of reform over the three-year period are: (1) a critical review of the economic impact of the CPSP upon the stabilization of consumer prices of basic staples, on the stabilization of revenue to producers of agricultural export crops (cotton and groundnuts), and on income distribution between capital and labour; (2) a gradual phasing-out of the fixed price system for groundnuts, cotton, wheat flour, rice, vegetable oil and sugar to be replaced by a more flexible pricing mechanism which would permit a more direct link between world prices and domestic prices; (3) serious consideration of the proposal to replace price equalization with a more rational approach through the use of fiscal instruments such as a variable customs duty or internal taxes; (4) renegotiation of existing contracts between the GOS and monopoly agro-industries including CSS (sugar), SODEFITEX (cotton), GMD and MS (wheat flour) and SAED (domestically produced rice) to

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reduce the level of protection and eliminate monopoly rights; and (5) following the example set by groundnut reforms the GOS should develop a specific time-table for reducing its administrative protection and financial support to agro-industries. The end result of the process should be the elimination of price equalization over a five-year period.

Judging from the complexities of the socio-economic constraints, subsidies to the cotton, rice and wheat flour are not likely to be eliminated until the third year of the program. The sugar sector will be the most difficult due to the significant price differential between world sugar prices and domestic production costs (one to three) and the fact that the CSS is a major employer in the northern part of the country. It has been estimated that over 100,000 people derive their livelihood directly or indirectly from the CSS.

During the negotiating process with the GOS in this area the general objectives of reform were accepted as they appear in the matrix presented to the ECPR. There were no major problems with the specific conditionality except for our proposed covenant for the elimination of monopoly purchasing rights for groundnut industries during the first year. This point is developed in some detail in the section on responses to issues raised at the Project committee issues meeting. The Finance Ministry expressed reticence with the request for elimination of price equalization on imported vegetable oil at a time when this equalization is generating revenues for the GOS but the Presidency ruled in favour of eliminating it.

Thus the first CP on the elimination of price equalization on exported groundnuts and domestically consumed imported vegetable oil has been respected and a letter to this effect is being circulated by the Minister of State, Secretary General of the Presidency. The Mission believes that it is not necessary to require further proof of implementation.

The second CP was reinforced by the Minister of Finance who felt that the condition was one-sided in favors of the oil crushing firms which have asked to readjust their prices without agreeing to pay taxies and duties on imported vegetable oil and exported groundnut oil. The second CP therefore now reads that the oil crushing firms are at liberty to adjust the consumer prices for cooking oil in relation to price changes in the world market and to domestic market conditions. The procedure to be used is that the oil mills notify the GOS on price changes and wait a certain period of time for approval or disapproval. A request for a reduction in the price of vegetable oil of CFAF 50/litre made by the oil millers has been approved and a public announcement is expected shortly. The oil millers are also subject to payment of all taxes and duties on their import and export operations. The mission has received written confirmation to this effect from the Presidency which we accept as evidence that the CP has been met. Subsequently and timely payment of customs futies and taxes by the oil millers has been added as on covenant to the first year.

Agreement has been reached on the covenants for the first year with no modification. At the technical level in the Presidency there is considerable support for the total elimination of price equalization overtime. A plan for phasing-out fixed producer prices of export crops to be replaced by a flexible floor price mechanism is to be established by December 1986. The possibility of replacing price equalization by a taxation system will be studied and conclusions circulated for December 1986. Rice equalization is to be replaced

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by a tax to be periodically adjusted beginning in July 1986. A detailed review of production costs of agro-indutries subsidized by the CPSP will be completed by end December 1986.

C. Agro-Industry

Export agro-industries have a considerable impact both at the macro-economic level and at the level of farmers' decisions on whether to plant cereals or export crops. At the macro-economic level, export agro-industries directly influence the amount and composition of credit availability to the economy and have, at least in the past, weighed heavily on the public finance situation owing to significant GOS subsidy payments. The groundnut sector has been the most important element among the agro-industries. As a result of pressure from the IMF, World Bank and USAID the agro-industries, after receipt of GOS subsidy payments, fully reimbursed outstanding crop credit in March 1985 for the first time since 1978. These credit reimbursements: (1) improved the general credibility of bank lending for agricultural activities; (2) enhanced banks' willingness to lend for short-term crop credit for the 1985/86 agricultural season and (3) eliminated some of the pressure on credit restrictions to the private sector since unreimbursed crop credit is classified as ordinary private sector credit when it is not reimbursed according to schedule.

At the level of farmers' decisions to plant foodcrops versus export crops massive GOS subsidies to the export crop sector and the willingness of the GOS to guarantee unlimited rediscounted credit for export crops have tipped the balance against domestic foodcrop production. The reforms announced by President Diouf on April 3, 1985 if implemented will re-equilibrate the incentives for producing food crops versus export crops. GOS subsidies for groundnut seeds have been eliminated and input management has been turned over to the farmers and agro-industry. Subsidies to oil crushing firms are to be eliminated beginning in 1986 and oil crushing firms are to be free to make management decisions required to accommodate the loss of subsidies. Limited private sector participation in the marketing of groundnuts is also authorized beginning in 1985.

The major objectives of conditionality in this area are: (1) to ensure implementation of the reforms as announced and (2) to ensure that agro-industries do not adjust to the elimination of GOS subsidies by accumulating arrears on the reimbursement of crop credit.

The solvency of agro-industries is basically dependent on: (1) effective reduction in costs and excess capacity; (2) timely credit reimbursements and most importantly (3) a more flexible pricing system which would allow producer prices to adjust to world market co. tions.

In the process of negotiating the conditionality the general objectives of reform were accepted by the GOS as they are set out in the matrix: (1) reinforcement of the groundnut sector reforms announced by President Diouf in April 1986; (2) adjustment of oil crushing firms'cost and crushing capacity to the realities of domestic and world developments in this sector; (3) reduction in GOS support for agro-industries as a means for providing a more balanced trade-off between export crops and foodcrops and (4) to ensure that agro-indutries do not adjust to the elimination of GOS subsidies by accumulating arrears on the reimbursement of crop credit to the banking sector. An important step has been made towards placing the crop credit system on a commercial basis for the current marketing season. The oil millers are now required to guarantee their own crop credit vis à vis the banking sector as the GOS has refused to provide its guarantee as it has done in the past. Two banks appear reluctant to lend on this new basis but most recent information indicates that sufficient financing is available.

The first CP regarding oil crushing firms right to adjust to maintain profitability in the face of fluctuating production and world prices has been accepted and was reiterated in a letter sent to the mission by the Minister of State Jean Collin. Two-hundred people have been layed-off but there is still considerable debate concerning which of the four existing crushing facilities will be closed. Due to the political implications (religions brotherhoods are particularly active in the facility originally chosen to be closed) the oil mills had requested that the GOS make the final decision; however, the GOS has refused giving its disengagement from the groundnut sector as a rreason for this position, The mission will not be requiring any additional confirmation that this CP has been met.

The second CP dealing with the reimbursement of outstanding crop credit for 1984/1985 crop year is causing a certain amount of difficulties. While all crop credit utilized to purchase domestically produced rice and cotton has now been reimbursed there still remains a substantial amount outstanding with respect to the purchase of groundnuts for crushing. According to the most recent figures available from the Central Bank SONACOS currently has CFAF 5.4 billion or dollars 14 million to reimburse and SEIB has CFAF 1.0 billion or dollars 2.6 million to reimburse. The reason for the delay centers around two points: (1) SONACOS is currently in the process of merging with SEIB as a means of staving off bandruptcy for SEIB; however, at the time the crop credit was drawn SEIB was an independent entity and therefore entirely responsible for its credit repayments and (2) this is the last year in which the GOS will be subsidizing oil crushing firms and thus SONACOS in particular is attempting to extract the maximum amount possible from the GOS. Figures range from a low of CFAF 5.3 billion or dollars 13.8 million to a high or CFAF 8.4 billion or dollars 21.8 million.

Due to the complexity of the situation the mission is recommending two separate CP's. One which would related to the initial disbursment of dollars 10.0 million and one to the second disbursement of dollars 5.0 million to be made available when the USG budgetary situation has been clarified. The SONACOS must reimburse the totality of its capital plus interest of its purchases of groundnuts for crushing prior to first disbursement of dollars 10 million. Prior to the second disbursement of dollars 5 million the SEIB will have reimburse the totality of its capital plus interest on purchases of groundnuts for crushing. As evidence that CP's have been met the mission will be requiring, as it did last year, written confirmation from the Central Bank that payments have effectively been made.

With respect to covenants the Finance Minister requested that the condition requiring SONACOS to introduce cost accounting by June 1986 be replaced by a condition requiring than an audit be undertaken to determine the efficiency of each processing and management unit. Due to the complexity of the teask of auditing SONACOS the deadline was given as end of December 1986. Since the GOS is a major shareholder in SONACOS it is in a strong position to require an audit. The other covenants remain unchanged. After 1985 there will be no more direct GOS subsidy to oil crushing firms with the possible exception of a modest subsidy to cover some of the costs of maintaining a groundnut seed security stock). By the end of March 1986, crop credit due on the seed stock will be reimbursed. Oil crushing firms will develop a cost efficient means of managing a security seed stock for the 1986/87 crop year.

D. Privatization of Fertilizer Distribution

In order to encourage private sector distribution of fertilizer, USAID is recommending a degressive subsidy which would evolve as follows: 1986/87, 24 CFA/kg; 1987/88; 16 CFAF/kg; 1988/89, 8 CFA/kg; 1989/90, elimination of the subsidy. This schedule of subsidy reduction would be consistent with the World Bank conditionality on agricultural inputs. The subsidy is necessary at this point to encourage the private sector to develop a distribution system under conditions of uncertainty regarding the level of solvent fertilizer demand. Furthermore, the subsidy is designed to encourage farmers to pay cash for fertilizer rather than to purchase it on credit which is never reimbursed. The CCCE and USAID will be financing the subsidy which is available only for cash sales sold outside the RDAs. It is estimated that the subsidy will require approximately $1.5 million in the first year with $500,000 to be provided by the CCCE.

As soon as confirmation of the availability of the subsidy is made, SONACOS will be ordering 7,500 MT of fertilizer from the domestic fertilizer producer ICS. A maximum recommended price will be established in each region, reflecting the real costs of transportation. It is unlikely that the decreasing subsidy will result in declining fertilizer use since: (1) there are likely to be economies of scale as fertilizer demand increases thus reducing the real cost of fertilizer to the farmers; (2) producer prices of cereals and groundnuts are expected to continue to increase gradually which will increase farmer capacity to pay the cost price and (3) farmers will become accustomed to the concept of paying cash for inputs. Conditionality on fertilizer concentrates on ensuring that the cost price to the farmer is reasonable and that no new GOS credit program will be established. The focus of USAID attention on seeds is concentrated on the cereals sector since lack of quality seed represents a major constraint to increased production. The current state of research with respect to improved seed varieties is catastrophic and in some cases foundation seed for certain strains has actually disappeared. GOS involvement in selected seed multiplication and distribution is inefficient. USAID conditionality is designed to: (1) encourage the GOS to develop a plan to rationalize the seed sector which would be limited to research on foundation seed and quality control and (2) transfer responsibility for seed multiplication, storage and the sale of selected seeds to the private sector.

Although agricultural input pricing and distribution conditionality will be covered primarily in the agricultural production support project (APS) the Mission found it essential to provide for a CP as part of this ESF grant in order to ensure that, the fertilizer subsidy being provided from Title III and Title I monies for this initial year, is not used to finance credit sales which in Senegal have been characterized by a mediocre reimbursement record the GOS has concurred with this CP and the mission has received written confirmation in the form of a letter from the Rural Development Ministry to the Ministry of Plan and Cooperation that no state credit program for fertilizer sales will be established outside of what already exists through the Regional Development Agencies. The mission is satisfied with this evidence and therefore does not intend to seek additional assurances from the GOS on this point.

V. Special U.S. Interests

Senegal is a nonaligned, moderate functioning democracy now in its twenty-fifth year of independence. In February 1983, Senegal held multi-party elections with 5 parties competing for the Presidency and 8 parties presenting slates for the 120 seats in the National Assembly. Acting President Abdou Diouf was overwhelmingly elected as President to his first full term in office with 84 percent of the vote and his socialist party (PS) captured 111 out of 120 Assembly seats. Over 50 percent of Senegal's voters went to the polls, and the elections were carried out in a quiet and orderly fashion throughout the country. An historic event not only for Senegal, but for Africa as a whole, this election established Senegal's credentials as the leading democracy on the continent.

In the wake of this strong win at the polls, the government has begun facing up to the vital, but difficult, decisions needed to overcome its economic problems, many of which are structural. The resolution of these problems requires courage and firm political will and the GOS has moved to attack them head-on. The implementation of two successive IMF standby programs and other donor reform packages has reaffirmed the GOS' intent to govern within the bounds of fiscal discipline and real economic development. On balance, the donors consider the measures enacted to date to have been successful, though only the opening volley in the battle to progressively restore Senegal's financial viability.

On the international scene, Senegal has been a positive force for moderation and reason. It has worked closely and effectively with other moderate states in the UN and other fora. (For example, Senegal is the only black African state which provided military personnel as part of International Peace Keeping forces in Shaba, Lebanon, Chad and the Sinai). Senegal has been in the forefront of African nations trying to contain destabilizing actions in Africa and President Diouf, as current President of the OAU, is playing a pivotal role in dealing with many of Africa's other crises. Finally, in July 1981, Senegal was instrumental in putting down a coup attempt in the Gambia.

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

Within its subregion, some of Senegal's neighbors are politically insecure, and the country represents an island of stability and moderation. It is therefore in the self-interest of U.S. and other friendly countries to help Senegal preserve its moderate views and democratic tradition. Not only is this help vital to Senegal's ability to continue its own progress economically and socially, but it will also set an important example for its immediate neighbors and the subregion as a whole.

As testimony of the importance of Senegal to the West in general and the U.S. in particular, over the past five years a number of senior USG officials and Members of Congress have called in Dakar. These visitors have included Vice Presidents George Bush and Walter Mondale, then Secretary of State Alexander Haig and UN Ambassador Jeanne Kirkpatrick.

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

ANNEX 1

ECPR reporting cable was sent Limited Official Use and is not therefore included in this document. Reference is State 370281 (1985).

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E.O. 12356:N/A
SUBJECT: MAIN POINTS FROM PAAD FOR SENEGAL'S ECONOMIC SUPPORT FUND IV - 685-0288

REF: STATE 370281/01

1. SUMMARY: NEGOTIATIONS WITH THE GOS ON ESF CONDITIONALITY HAVE NOW BEEN COMPLETED AS WELL AS THE ADDITIONAL ANALYSIS REQUIRED FOR THE PAAD PREPARED FOR SENEGAL FY 86 ECONOMIC SUPPORT FUND PROGRAM GRANT. NEGOTIATIONS TOOK PLACE WITH BOTH THE MINISTER OF FINANCE AND THE MINISTER OF STATE, SECRETARY-GENERAL OF THE PRESIDENCY. THERE ARE SOME MINOR MODIFICATIONS IN THE CONDITIONALITY AS SET OUT IN THE MATRIX ATTACHED TO THE PAIP BUT THESE ARE MINOR AND IN SOME CASES REINFORCE THE SPIRIT OF THE REFORM PROCESS AS PRESENTED TO THE ECPR ON NOVEMBER 27. CONDITIONALITY WITH RESPECT TO CROP CREDIT IS SOMEWHAT ALTERED TO REFLECT THE FACT THAT ONLY DOLLARS 10 MILLION WILL BE DISBURSED IN THE FIRST TRANCHE THUS ALLOWING CERTAIN REIMBURSEMENTS TO BE LINKED TO A SUBSEQUENT DOLLARS 5 MILLION DISBURSEMENT. ALSO INCLUDED ARE THE PRECISE FORMS IN WHICH THE GOS WILL BE EXPECTED TO IMPLEMENT THE CP'S AND THE WAYS IN WHICH THE MISSION HAS CHOSEN TO DEAL WITH THE CONCERNS RAISED DURING THE PROJECT COMMITTEE ISSUES MEETING. END SUMMARY.

2. THE MISSION HAS COMPLETED NEGOTIATIONS WITH THE GOS IN THE THREE AREAS OF CONDITIONALITY AGREED UPON AT THE ECPR ON NOVEMBER 27, NAMELY: PRIVATIZATION OF THE IMPORTED RICE SECTOR, PHASING-OUT OF PRICE EQUALIZATION AND REFORM OF AGRO-INDUSTRIES AND IN PARTICULAR GROUNDNUT CRUSHING. IMPLEMENTATION OF THE CONDITIONALITY WILL LEAD TO FURTHER STRUCTURAL REFORMS NEEDED TO CORRECT UNDERLYING PROBLEMS OF THE ECONOMY AND TO IMPROVE PROSPECTS FOR INCREASED PRODUCTIVITY IN THE AGRICULTURAL SECTOR.

3. THE FOLLOWING CP'S AND COVENANTS WERE AGREED UPON WITH ONLY MINOR CHANGES FROM THOSE PRESENTED TO THE ECR. A DISCUSSION OF EACH CP IS CONAINED IN SECTIONS A THROUGH D BELOW. FOR THE PRIVATIZATION OF THE IMPORTED RICE SECTOR CP'S ARE: (A) THE REPAYMENT BY THE CPSP TO THE TREASURY OF CFAF 6.0 BILLION IN ARREARS ON CUSTOMS DUTIES ON IMPORTED RICE; (B) PAYMENT OF CFAF 530 MILLION IN AMOUNTS DUE ON PRICE EQUALIZATION FOR RICE AND (C) COLLECTION OF AT LEAST CFAF 400 MILLION IN ARREARS ON CREDIT SALES OF RICE FOR 1983 AJND 1984. COVENANTS ARE: (A) PRIVATIZATION

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OF THE INTERNAL DISTRIBUTION OF IMPORTED RICE WITH THE ELIMINATION OF THE CURRENT SYSTEM OF DESIGNATED WHOLESALERS BY JULY 1986; (B) ANNOUNCEMENT BEFORE END FEBRUARY 1986, THAT BEGINNING IN JULY 1986, SENEGAL WILL PROGRESSIVELY PRIVATIZE RICE IMPORT OPERATIONS; (C) REPAYMENT BY THE CPSP TO THE TREASURY OF A CUMMULATIVE TOTAL OF CFAF 10 BILLION FOR FY 1985/86 IN THE FORM OF CUSTOMS DUTIES ON IMPORTED RICE AND COLLECTION OF CFAF 430 MILLION OWED ON CREDIT SALES BEFORE JULY 1986; (D) BEFORE JULY 1986 THE RETAIL PRICE OF RICE WILL REFLECT THE REGIONAL COSTS OF TRANSPORT; (E) ESTABLISEMENT OF A MECHANISM FOR MANAGING A SECURITY STOCK BEFORE JULY 1986 AND A CORRESPONDING REDUCTION IN THE PERSONNEL OF THE CPSP AND (F) FINAL RECONCILIATION OF CPSP'S ACCOUNTS BEFORE APRIL 1986.

2.

4. WITH RESPECT TO THE PHASING-OUT OF CPSP, THE CONDITIONS PRECEDENT ARE: (A) GOS ELIMINATION OF EQUALIZATION ON GROUNDNUTS AND ON IMPORTED VEGETABLE OIL AND (B) GOS AUTHORIZATION FOR OIL CRUSHING FIRMS TO SET THE DOMESTIC SALES PRICE OF VEGETABLE OIL IN RELATION TO PRICE FLUCTUATIONS IN INTERNATIONAL MARKETS AND LOCAL MARKET CONDITIONS. CONSEQUENTLY, THE OIL CRUSHING FIRMS ARE LIABLE FOR PAYMENT OF CUSTOMS DUTIES AND/OR TAXES ON IMPORTED VEGETABLE OIL AND ON GROUNDNUT OIL EXPORTS. THE COVENANTS ARE: (A) ESTABLISEMENT OF A PLAN FOR PHASING-OUT FIXED PRODUCER PRICES FOR EXPORT CROPS TO BE REPLACED BY A FLEXIBLE FLOOR PRICE. THE PLAN WILL BE COMPLETED BY DECEMBER 1986. (B) A STUDY WILL BE COMPLETED BEFORE DECEMBER 1986 ON THE FEASIBILITY OF REPLACING THE PRICE EQUALIZATION SYSTEM BY FLEXIBLE USE OF FISCAL INSTRUMENTS. (C) PRICE EQUALIZATION ON IMPORTED RICE WILL BE REPLACED BY A SPECIAL TAX THAT WILL BE PERIODICALLY ADJUSTED BEGINNING IN JULY 1986; (D) A DETAILED STUDY OF THE PRODUCTION COSTS OF AGRO-INDUSTRIES SUBSIDIZED BY THE GOS THROUGH THE CPSP WILL BE COMPLETED FOR END DECEMBER 1986 AND (E) THE OIL CRUSHING FIRMS WILL BE LIABLE FOR THE TIMELY PAYMENT OF TAXES AND CUSTOMS DUTIES ON IMPORTED VEGETABLE OIL AND EXPORTED GROUNDNUT OIL.

5. WITH RESPECT TO THE REFORM OF THE AGRO-INDUSTRIAL SECTOR, THE CP'S ARE: (A) THE GOS OFFICIALLY COMMITS ITSELF TO ALLOWING THE OIL CRUSHING FIRMS TO MAKE THEIR OWN DECISIONS REGARDING ADJUSTMENT MEASURES REQUIRED TO RESPOND TO WORLD PRICE FLUCTUATIONS AND DOMESTIC SUPPLY CONDITIONS (E.G. REDUCTION IN OVER-CAPACITY AND IN PERSONNEL) AND (B) AGRO-INDUSTRIES (COTTON AND DOMESTIC RICE)

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3.

WILL REIMBURSE THE TOTALITY OF THEIR OUTSTANDING CROP CREDIT FOR THE 1985/85 CROP YEAR. SONACOS WILL ALSO REIMBURSE ALL CROP CREDIT WITH RESPECT TO THE PURCHASE OF GROUNDNUTS FOR CRUSHING. BEFORE THE SECOND DISBURSEMENT SEIB WILL HAVE REIMBURSED ALL CROP CREDIT ON PURCHASE OF GROUNDNUTS FOR CRUSHING RELATED TO THE 1984/85 CROP YEAR. THE FOLLOWING COVENANTS ARE APPLICABLE: (A) OIL CRUSHING FIRMS WILL REIMBURSE ALL OUTSTANDING CROP CREDIT ON THE SEED STOCK FOR 1984/85 BEFORE END MARCH 1985; (B) AFTER 1985, THERE WILL BE NO DIRECT SUBSIDY FROM THE GOS TO OIL CRUSHING FIRMS (WITH THE POSSIBLE EXCEPTION OF THE SECURITY SEED STOCK); (C) THE GOS WILL REQUIRE AN AUDIT OF SONACOS' MANAGEMENT AND PRODUCTION UNITS TO BE COMPLETED BY END DECEMBER 1985; AND (D) THE OIL CRUSHING FIRMS WILL DEVELOP A COST EFFICIENT MEANS OF MANAGING A SECURITY SEED STOCK TO BE EFFECTIVE FOR THE 1986/87 CROP YEAR.

6. THE SECTIONS THAT FOLLOW DEAL WITH THE OVERALL OBJECTIVES OF THE 3-YEAR REFORM PROGRAM AND SPECIFIC CONDITIONALITY FOR THE FIRST YEAR. A FULL THREE-YEAR PROGRAM OF CONDITIONALITY WAS SUBMITTED TO THE GOS DURING NEGOTIATIONS AND IS ATTACHED AS AN ANNEX TO THE PAAD. THE PROGRAM IS BASICALLY THE SAME AS THE ONE SUBMITTED AS PART OF THE PAIP.

A. CONDITIONALITY ON PRIVATISATION OF IMPORTED RICE SECTOR

7. THE OVERALL OBJECTIVES OF REFORM IN THE SECTOR REMAIN UNCHANGED WITH RESPECT TO THE MATRIX PRESENTED TO THE ECPR: (1) COMPLETE PRIVATIZATION OF RICE IMPORT OPERATIONS WITH THE EXCEPTION OF A GOS SECURITY STOCK; (2) ELIMINATION OF A FIXED PRICE FOR RICE TO BE REPLACED BY A VARIABLE CUSTOMS DUTY; (3) EFFICIENT FUNCTIONING OF A GOS SECURITY STOCK; (4) ACHIEVEMENT OF TARGETS FOR REPAYMENT OF ARREARS AND OF THE FUTURE TARGETS FOR TIMELY PAYMENT OF CUSTOMS DUTIES AND INTERNAL TAXES; AND (5) ELIMINATION OF CROSS-SUBSIDIZATION OF TRANSPORT COSTS OF RICE. IN DISCUSSIONS WITH THE GOS AT THE TECHNICAL LEVEL, OFFICIALS MADE THE POINT THAT COMPLETE PRIVATIZATION WAS INDEED THE FINAL OBJECTIVE BUT THAT THIS SHOULD BE IMPLEMENTED GRADUALLY TO PREVENT DISRUPTIONS IN RICE SUPPLIES TO CONSUMERS. THE GOS IS ALSO COMMITTED TO MAINTAINING AN OVERALL QUOTA ON RICE IMPORTS OF 340,000 MT AS A MEANS OF PROMOTING A SHIFT IN CONSUMPTION FROM IMPORTED RICE TOWARDS DOMESTICALLY PRODUCED CEREALS. PRIVATIZATION IS TO BE PURSUED BOTH THROUGH INCREASES IN AMOUNTS OPEN TO COMPETITIVE BIDDING AND THROUGH THE SALE OF ALL GOS SHARES IN SONADIS (THE NATIONAL DISTRIBUTION COMPANY) WHICH WILL BE HANDLING, AT LEAST FOR A 2-YEAR TRANSITION PERIOD, A 60,000 MT SECURITY STOCK PLUS 20,000 MT TO GUARANTEE SUPPLY IN THE REGIONS.

8. THE CP WITH RESPECT TO THE REIMBURSEMENT OF ARREARS ON CUSTOMS DUTIES HAS BEEN MET AND EVEN EXCEEDED. ACCORDING TO DATA RECEIVED FROM THE CPSP CFAF 5.385 BILLION OR DOLLARS 13.2 MILLION HAVE ALREADY BEEN PAID. AN ADDI-

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TIONAL PAYMENT OF CFAF 1.042 BILLION OR DOLLARS 2.7 MILLION WILL BE MADE WITHIN THE NEXT WEEK BRINGING THE TOTAL TO CFAF 6.13 BILLION OR DOLLARS 15.9 MILLION. THE MISSION IS REQUESTING WRITTEN CONFIRMATION FROM THE GOS CUSTOMS AND TREASURY DEPARTMENTS THAT ABOVE PAYMENTS HAVE IN FACT BEEN RECEIVED. 4.

9. THE CP DEALING WITH THE PAYMENT OF OUTSTANDING EXCESS PROFITS OWED TO THE GOS TREASURY HAS ALSO BEEN MET SINCE SEPTEMBER 30. AN ADDITIONAL PAYMENT OF CFAF 1 BILLION CFAF OR DOLLARS 2.6 MILLION IS EXPECTED ON DECEMBER 31 WHICH WOULD BRING THE TOTAL TO 1.5 BILLION. IT IS IMPORTANT TO MAINTAIN PRESSURE ON THE CPSP THROUGHOUT THE PERIOD BEFORE RICE IMPORTS ARE PRIVATIZED (JUNE 1986) TO ENSURE THAT ALL EXPECTED REVENUE IS PAID ON TIME. THE MISSION IS REQUESTING WRITTEN CONFIRMATION FROM THE GOS TREASURY ON RECEIPT OF THESE PAYMENTS.

10. THE THIRD CP WITH RESPECT TO THE COLLECTION OF ARREARS ON CREDIT SALES IS BEING MODIFIED SLIGHTLY TO REFLECT DIFFICULTIES ENCOUNTERED BY THE CPSP IN THE COLLECTION PROCESS. BY END OF DECEMBER THE CPSP EXPECTS TO COLLECT CFAF 400 MILLION OR DOLLARS 1.04 MILLION INSTEAD OF CFAF 500 MILLION ORIGINALLY PROJECTED. THE DIFFICULTIES IN COLLECTION ARE CAUSED BY: (1) THE LACK OF RESPONSIVENESS FROM THE COURTS; (2) CPSP'S STATUS WHICH DOES NOT PERMIT IT TO MAKE DIRECT SEIZURES OF PROPERTY AND (3) THE LENGTH OF TIME REQUIRED FOR THE RESALE OF PROPERTY (MAINLY RESIDENTIAL HOMES) WHICH HAVE BEEN LEGALLY TRANSFERRED TO THE CPSP TO COVER BAD LOANS OF RICE DEALERS WHO HAVE

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DECLARED BANKRUPTCY. THE MISSION IS REQUIRING WRITTEN CONFIRMATION FROM THE PUBLIC AUDITOR ASSIGNED BY THE GOS TO THE CPSP THAT SUMS HAVE ACTUALLY BEEN COLLECTED.

5.

11. THE FIRST COVENANT UNDER RICE PRIVATIZATION HAS BEEN MODIFIED SLIGHTLY IN THE NEGOTIATING PROCESS TO REFLECT A CONCERN EXPRESSED BY THE MINISTER OF STATE, JEAN COLLIN. THE QUOTA SYSTEM FOR INTERNAL RICE DISTRIBUTION WILL BE ELIMINATED BEGINNING IN JULY 1986, BUT THE GOS RESERVES THE RIGHT TO DESIGNATE A SPECIFIC WHOLESALER TO DISTRIBUTE RICE IN THE EVENT OF A SEVERE RICE SHORTAGE IN ANY GIVEN REGION. THE OTHER COVENANTS REMAIN UNCHANGED. THE GOS HAS ALREADY ANNOUNCED THAT IT WILL GRADUALLY PRIVATIZE RICE BEGINNING IN JUNE 196. THE CPSP HAS CONFIRMED ITS INTENTION OF PAYING AT LEAST A CUMMULATED TOTAA OF CFAF 10 BILLION OR DOLLARS 26 MILLION IN CUSTOMS DUTIES ON RICE IMPORTS BEFORE THE END OF JUNE 1986. THE CPSP WILL ATTEMPT TO COLLECT AN ADDITIONAL CFAF 480 MILLION IN ARREARS ON CREDIT SALES BEFORE END JUNE 1986. THE RETAIL PRICE OF RICE WILL BE MODIFIED BY JULY 1986 TO REFLECT TRANSPORT COSTS TO THE REGIONS. A MECHANISM FOR MANAGING THE GOS SECURITY/REGULATING STOCK WILL BE FUNCTIONAL BEFORE JULY 1986. A REDUCTION IN THE STAFF OF THE CPSP WILL BE MADE IN RESPONSE TO THE PRIVATIZATION AND TRANSFER OF RICE IMPORT OPERATIONS. THE FINAL RECONCILIATION OF THE ACCOUNTS OF THE CPSP WILL BE COMPLETED BEFORE APRIL 1986, THUS FACILITATING THE LEGAL/FINANCIAL PROCESS OF TAKING THE IMPORTED RICE AND GROUNDNUT SECTORS OUT OF THE CPSP.

B. CONDITIONALITY ON THE PHASING-OUT OF PRICE EQUALIZATION

12. THE GENERAL OBJECTIVES OF REFORM IN THIS AREA ARE THE SAME AS THOSE IN THE MATRIX: (1) CRITICAL REVIEW OF THE ECONOMIC IMPACT OF PRICE EQUALIZATION ON STATED OBJECTIVES OF REVENUE STABLIZATION TO PRODUCERS AND PRICE STABILIZATION FOR CONSUMERS; (2) GRADUAL PHASE-OUT OF THE FIXED PRICE SYSTEM FOR EXPORT PRODUCER PRICES (COTTON, GROUNDNUTS) AND CONSUMER PRICES FOR VEGETABLE OIL, SUGAR AND WHEAT FLOUR; (3) REPLACEMENT OF PRICE EQUALIZATION BY TAXES; (4) RENEGOTIATION OF EXISTING CONTRACTS BETWEEN THE GOS AND MONOPOLY AGRO-INDUSTRIES AND (5) DEVELOPMENT OF A TIME TABLE FOR REDUCING ADMINISTRATIVE PROTECTION AND FINANCIAL SUPPORT TO AGRO-INDUSTRIES. THERE WERE NO MAJOR PROBLEMS IN THE NEGOTIATIONS IN THIS AREA WITH THE EXCEPTION OF OUR PROPOSED COVENANT FOR THE ELIMINATION OF MONOPOLY PURCHASING RIGHTS FOR GROUNDNUT INDUSTRIES DURING THE FIRST YEAR. THIS POINT IS DEVELOPED IN SOME DETAIL IN THE SECTION ON RESPONSES TO ISSUES RAISED AT THE PROJECT COMMITTEE ISSUES MEETING (SEE SECTION F). THE FINANCE MINISTRY EXPRESSED RETICENCE WITH THE REQUEST FOR ELIMINATION OF PRICE EQUALIZATION ON IMPORTED VEGETABLE OIL AT A TIME WHEN THIS EQUALIZATION IS GENERATING REVENUES FOR THE GOS BUT THE PRESIDENCY RULED IN FAVOR OF ELIMINATING IT.

13. THUS, THE FIRST CP ON THE ELIMINATION OF PRICE EQUALI-

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ZATION ON EXPORTED GROUNDNUTS AND DOMESTICALLY CONSUMED IMPORTED VEGETABLE OIL HAS BEEN RESPECTED AND A LETTER TO THIS EFFECT IS BEING CIRCULATED BY THE MINISTER OF STATE, SECRETARY-GENERAL OF THE PRESIDENCY. THE MISSION BELIEVES THAT IT IS NOT NECESSARY TO REQUIRE FURTHER PROOF OF IMPLEMENTATION. 6.

14. THE SECOND CP WAS REINFORCED BY THE MINISTER OF FINANCE WHO FELT THAT THE CONDITION WAS ONE-SIDED IN FAVOR OF THE OIL CRUSHING FIRMS WHICH HAVE ASKED TO READJUST THEIR PRICES WITHOUT AGREEING TO PAY TAXES AND DUTIES ON IMPORTED VEGETABLE OIL AND EXPORTED GROUNDNUT OIL. THE SECOND CP THEREFORE NOW READS THE OIL CRUSHING FIRMS ARE AT LIBERTY TO ADJUST THE CONSUMER PRICES FOR COOKING OIL IN RELATION TO PRICE CHANGES IN THE WORLD MARKET AND TO DOMESTIC MARKET CONDITIONS. THE PROCEDURE TO BE USED IS THAT THE OIL MILLS WILL NOTIFY THE GOS ON PRICE CHANGES AND WAIT A CERTAIN PERIOD OF TIME FOR APPROVAL OR DISAPPROVAL. A REQUEST FOR A REDUCTION IN THE PRICE OF VEGETABLE OIL OF CFAF 50/LITRE MADE BY THE OIL MILLERS HAS BEEN APPROVED AND A PUBLIC ANNOUNCEMENT IS EXPECTED SHORTLY. THE OIL MILLERS ARE ALSO SUBJECT TO PAYMENT OF ALL TAXES AND DUTIES ON THEIR IMPORT AND EXPORT OPERATIONS. THE MISSION HAS RECEIVED WRITTEN CONFIRMATION TO THIS EFFECT FROM THE PRESIDENCY WHICH WE ACCEPT AS EVIDENCE THAT THE CP HAS BEEN MET. SUBSEQUENT AND TIMELY PAYMENT OF CUSTOMS DUTIES AND TAXES BY THE OIL MILLERS HAS BEEN ADDED AS A COVENANT TO THE FIRST YEAR.

15. AGREEMENT HAS BEEN REACHED ON THE COVENANTS FOR THE

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FIRST YEAR WITH NO MODIFICATION. AT THE TECHNICAL LEVEL IN THE PRESIDENCY THERE IS CONSIDERABLE SUPPORT FOR THE TOTAL ELIMINATION OF PRICE EQUALIZATION OVER TIME. A PLAN FOR PHASING-OUT FIXED PRODUCER PRICES OF EXPORT CROPS TO BE REPLACED BY A FLEXIBLE FLOOR PRICE MECHANISM IS TO BE ESTABLISHED BY DECEMBER 1985. THE POSSIBILITY OF REPLACING PRICE EQUALIZATION BY A TAXATION SYSTEM WILL BE STUDIED AND CONCLUSIONS CIRCULATED FOR DECEMBER 1985. RICE EQUALIZATION IS TO BE REPLACED BY A TAX TO BE PERIODICALLY ADJUSTED BEGINNING IN JULY 1986. A DETAILED REVIEW OF PRODUCTION COSTS OF AGRO-INDUSTRIES SUBSIDIZED BY THE CPSP WILL BE COMPLETED BY END DECEMBER 1986.

7.

C. CONDITIONALITY ON REFORM OF AGRO-INDUSTRY

16. THE GENERAL OBJECTIVES OF THE REFORM HAVE BEEN ACCEPTED BY THE GOS AND ARE AS FOLLOWS: (1) REINFORCEMENT OF THE GROUNDNUT SECTOR REFORMS ANNOUNCED BY PRESIDENT DIOUF IN APRIL 1986; (2) ADJUSTMENT OF OIL CRUSHING FIRMS' COSTS AND CRUSHING CAPACITY TO THE REALITIES OF DOMESTIC AND WORLD DEVELOPMENTS IN THIS SECTOR; (3) REDUCTION IN GOS SUPPORT FOR AGRO-INDUSTRIES AS A MEANS FOR PROVIDING A MORE BALANCED TRADE-OFF BETWEEN EXPORT CROPS AND FOOD CROPS AND (4) TO ENSURE THAT AGRO-INDUSTRIES DO NOT ADJUST TO THE ELIMINATION OF GOS SUBSIDIES BY ACCUMULTING ARREARS ON THE REIMBURSEMENT OF CROP CREDIT TO THE BANKING SECTOR. AN IMPORTANT STEP HAS BEEN MADE TOWARDS PLACING THE CROP CREDIT SYSTEM ON A COMMERCIAL BASIS FOR THE CURRENT MARKETING SEASON. THE OIL MILLERS ARE NOW REQUIRED TO GUARANTEE THEIR OWN CROP CREDIT VIS A VIS THE BANKING SECTOR AS THE GOS HAS REFUSED TO PROVIDE ITS GUARANTEE AS IT HAS DONE IN THE PAST. TWO BANKS APPEAR RELUCTANT TO LEND ON THIS NEW BASIS BUT MOST RECENT INFORMATION INDICATES THAT SUFFICIENT FINANCING IS AVAILABLE.

17. THE FIRST CP REGARDING OIL CRUSHING FIRMS' RIGHT TO ADJUST TO MAINTAIN PROFITABILITY IN THE FACE OF FLUCTUATING PRODUCTION AND WORLD PRICES HAS BEEN ACCEPTED AND WAS REITERATED IN A LETTER SENT TO THE MISSION BY THE MINISTER OF STATE, JEAN COLLIN. TWO-HUNDRED PEOPLE HAVE BEEN LAYED-OFF BUT THERE IS STILL CONSIDERABLE DEBATE CONCERNING WHICH OF THE FOUR EXISTING CRUSHING FACILITIES WILL BE CLOSED. FOR THE TIME BEING THE DIOURBEL PLANT. REPRESENTING 200,000 MT OF CRUSHING CAPACITY IS NOT OPERATING.

18. THE SECOND CP DEALING WITH THE REIMBURSEMENT OF OUTSTANDING CROP CREDIT FOR 1984/85 CROP YEAR IS CAUSING A CERTAIN AMOUNT OF DIFFICULTIES. WHILE ALL CROP CREDIT UTILIZED TO PURCHASE DOMESTICALLY PRODUCED RICE AND COTTON HAS NOW BEEN REIMBURSED, THERE STILL REMAINS A SUBSTANTIAL AMOUNT OUTSTANDING WITH RESPECT TO THE PURCHASE OF GROUNDNUTS FOR CRUSHING. ACCORDING TO THE MOST RECENT FIGURES AVAILABLE FROM THE CENTRAL BANK, SONACOS CURRENTLY HAS CFAF 5.4 BILLION OR DOLLARS 14 MILLION TO REIMBURSE AND SEIB HAS CFAF 1.0 BILLION OR DOLLARS 2.6 MILLION TO REIMBURSE. THE REASON FOR THE DELAY CENTERS AROUND TWO POINTS:

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(1) SONACOS IS CURRENTLY IN THE PROCESS OF MERGING WITH SEIB AS A MEANS OF STAVING OFF BANKRUPTCY FOR SEIB; HOWEVER, AT THE TIME THE CROP CREDIT WAS DRAWN SEIB WAS AN INDEPENDENT ENTITY AND THEREFORE ENTIRELY RESPONSIBLE FOR ITS CREDIT REPAYMENTS AND (2) THIS IS THE LAST YEAR IN WHICH THE GOS WILL BE SUBSIDIZING OIL CRUSHING FIRMS AND THUS SONACOS IN PARTICULAR IS ATTEMPTING TO EXTRACT THE MAXIMUM AMOUNT POSSIBLE FROM THE GOS. NO AGREEMENT HAS YET BEEN REACHED ON THE NET AMOUNTS TO BE PAID BY THE GOS. FIGURES RANGE FROM A LOW OF CFAF 5.3 BILLION OR DOLLARS 13.8 MILLION TO A HIGH OF CFAF 8.4 BILLION OR DOLLARS 21.8 MILLION.

8.

19. DUE TO THE COMPLEXITY OF THE SITUATION, THE MISSION IS RECOMMENDING TWO SEPARATE CP'S. ONE WHICH WOULD RELATE TO THE INITIAL DISBURSEMENT OF DOLLARS 10.0 MILLION AND ONE TO THE SECOND DISBURSEMENT OF DOLLARS 5.0 MILLION. SONACOS MUST REIMBURSE THE TOTALITY OF ITS CAPITAL PLUS INTEREST ON ITS PURCHASES OF GROUNDNUTS FOR CRUSHING PRIOR TO FIRST DISBURSEMENT OF DOLLARS 10 MILLION. PRIOR TO THE SECOND DISBURSEMENT OF DOLLARS 5 MILLION THE SEIB WILL HAVE REIMBURSED THE TOTALITY OF ITS CAPITAL PLUS INTEREST ON PURCHASES OF GROUNDNUTS FOR CRUSHING. AS EVIDENCE THAT CP'S HAVE BEEN MET, THE MISSION WILL BE REQUIRING, AS IT DID LAST YEAR, WRITTEN CONFIRMATION FROM THE CENTRAL BANK THAT PAYMENTS HAVE EFFECTIVELY BEEN MADE.

20. WITH RESPECT TO COVENANTS THE FINANCE MINISTER REQUESTED THAT THE CONDITION REQUIRING SONACOS TO INTRODUCE COST ACCOUNTING BY JUNE 1986 BE REPLACED BY A CONDITION REQUIRING THAT AN AUDIT BE UNDERTAKEN TO DETERMINE

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THE EFFICIENCY OF EACH PROCESSING AND MANAGEMENT UNIT. DUE TO THE COMPLEXITY OF THE TASK OF AUDITING SONACOS, THE DEADLINE WAS GIVEN AS END OF DECEMBER 1986. SINCE THE GOS IS A MAJOR SHAREHOLDER IN SONACOS, IT IS IN A STRONG POSITION TO REQUIRE AN AUDIT. THE OTHER COVENANTS REMAIN UNCHANGED. AFTER 1985 THERE WILL BE NO MORE DIRECT GOS SUBSIDY TO OIL CRUSHING FIRMS (WITH THE POSSIBLE EXCEPTION OF A MODEST SUBSIDY TO COVER SOME OF THE COSTS OF MAINTAINING A GROUNDNUT SEED SECURITY STOCK). IN THE SPRING, TOTAL CROP CREDIT DUE ON THE SEED STOCK WILL BE REIMBURSED; AFTER WHICH, THE SECOND TRANCHE WILL BE DISBURSED. OIL CRUSHING FIRMS WILL DEVELOP A COST EFFICIENT MEANS OF MANAGING A SECURITY SEED STOCK FOR THE 1986/87 CROP YEAR.

9

D. CONDITIONALITY ON USE OF CREDIT FOR FERTILIZER

21. ALTHOUGH AGRICULTURAL INPUT PRICING AND DISTRIBUTION CONDITIONALITY WILL BE COVERED PRIMARILY IN THE AGRICULTURAL PRODUCTION SUPPORT PROJECT (APS) THE MISSION FOUND IT ESSENTIAL TO PROVIDE FOR A CP AS PART OF THIS ESF GRANT IN ORDER TO ENSURE THAT, THE FERTILIZER SUBSIDY BEING PROVIDED FROM TITLE III AND TITLE I MONIES FOR THIS INITIAL YEAR, IS NOT USED TO FINANCE CREDIT SALES WHICH IN SENEGAL HAVE BEEN CHARACTERIZED BY A MEDIOCRE REIMBURSEMENT RECORD. THE GOS HAS CONCURRED WITH THIS CP AND THE MISSION HAS RECEIVED WRITTEN CONFIRMATION IN THE FORM OF A LETTER FROM THE RURAL DEVELOPMENT MINISTRY TO THE MINISTRY OF PLAN AND COOPERATION THAT NO STATE CREDIT PROGRAM FOR FERTILIZER SALES WILL BE ESTABLISHED OUTSIDE OF WHAT ALREADY EXISTS THROUGH THE REGIONAL DEVELOPMENT AGENCIES. THE MISSION IS SATISFIED WITH THIS EVIDENCE AND THEREFORE DOES NOT INTEND TO SEEK ADDITIONAL ASSURANCES FROM THE GOS ON THIS POINT.

E. TIMING OF DISBURSEMENTS AND RELATIONSHIP TO THE IMF STANDBY

22. THE MISSION HAS EMPHASIZED IN NEGOTIATIONS WITH THE GOS THAT THIS 3-YEAR ESF PROGRAM IS AIMED AT STRUCTURAL ADJUSTMENT AND THEREFORE MUST BE DECOUPLED FROM THE DEADLINES AND TARGETS ESTABLISHED UNDER IMF PROGRAMS. DESPITE ADVANCE WARNING TO THIS AFFECT WHICH WAS GIVEN IN THE FORM OF AN AIDE-MEMOIRE SENT BY MISSION DIRECTOR LITTLEFIELD TO FINANCE MINISTER TOURE IN DECEMBER 1984 (SEE PAAD FOR 685-0287 ANNEX C) THE GOS HAS STRESSED THE URGENCY OF THE FIRST DISBURSEMENT UNDER ESF IV DUE TO THE CRITICAL GOVERNMENT LIQUIDITY SITUATION WHICH MAY JEOPARDIZE SENEGAL'S FINANCIAL PROGRAM WITH THE IMF. SEPTEL FOLLOWS GIVING SUMMARY OF FINDINGS OF LATEST IMF STAFF VISIT. AT THIS TIME, THE MISSION IS SATISFIED THAT THE GOS IS MAKING SATISFACTORY PROGRESS IN IMPLEMENTING THE CONDITIONALITY AS APPROVED BY THE ECPR ON NOVEMBER 27.

23. THE MISSION'S ABILITY TO MAINTAIN PRESSURE ON THE GOS FOR CONTINUED REFORM IS ENHANCED BY THE FACT THAT

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THE FULL DOLLARS 15 MILLION IN ESF WILL NOT BE DISBURSED IN ONE TRANCHE. WE HAVE REFLECTED THIS TRANCHING IN CP'S WITH RESPECT TO THE REIMBURSEMENT OF OUTSTANDING CROP CREDIT. IN ORDER TO AVOID THE TYPES OF PRESSURES WHICH USAID HAS EXPERIENCED REGARDING THE TIMING OF DISBURSEMENTS UNDER THE ESF FOR THIS YEAR, WE INTEND TO PUT IN WRITING EARLY IN THE NEGOTIATING PERIOD FOR A SUBSEQUENT IMF STAND-BY (E.G. JUNE OR JULY 1986) THAT ESF GRANTS SHOULD NOT APPEAR IN THE IMF TABLE ON GOVERNMENT FINANCIAL OPERATIONS IN ANY SPECIFIC TIME FRAME SINCE DISBURSEMENTS ARE DEPENDENT ON PROGRESS WITH RESPECT TO REFORMS AND AVAILABILITY OF FUNDS. 10

F. RESPONSES TO CONCERNS RAISED AT ISSUES MEETING AND THE ECPR

24. AN ISSUE INVOLVED ECONOMIC CRITERIA TO BE UTILIZED TO MAKE RECOMMENDATIONS TO THE PRESIDENT REGARDING A FLOOR PRICE FOR CEREALS. CONDITIONALITY IN THIS AREA HAS BEEN TRANSFERRED ENTIRELY TO THE PL-480 TITLE I PROGRAM WHICH WAS SIGNED BY THE U.S. AMBASSADOR AND THE GOS MINISTER OF FINANCE ON DECEMBER 17, 1985. IN A SEPARATE IMPLEMENTATION LETTER WHICH WAS SIGNED AT THE SAME TIME AS THE TITLE I AGREEMENT, THE GOS APPROVED THE CREATION OF A WORKING GROUP COMPOSED OF REPRESENTATIVES FROM THE PUBLIC AND PRIVATE SECTOS TO ESTABLISH A MECHANISM FOR SUPPORTING FLOOR PRICES FOR CEREALS AND TO RECOMMEND THE LEVEL OF FLOOR PRICES BASED ON ECONOMIC CRITERIA FOR EACH CROP YEAR BEGINNING IN 1986/87. AN AUDIT WILL ALSO BE UNDERTAKEN OF THIS YEAR'S GOS PURCHASES OF CEREALS TO SUPPORT THE CFAF 70/KG FLOOR PRICE. ONE OF THE FIRST TASKS OF

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THE WORKING GROUP WILL BE TO DETERMINE THE CRITERIA FOR SETTING THE FLOOR PRICE. USAID INTENDS TO TAKE A MAJOR ROLE IN THE DELIBERATIONS OF THIS WORKING GROUP.

25. ANOTHER ISSUE RAISED RELATES TO PROVISION FOR A COVENANT DURING THE FIRST YEAR OF THE MULTI-YEAR PROGRAM STIPULATING THAT THE GOS WOULD ELIMINATE THE MONOPOLY PURCHASING POWER OF THE GROUNDNUT PROCESSING INDUSTRY. THE MISSION HAS BEEN UNABLE TO OBTAIN GOS CONCURRENCE ON THIS FOR THE FIRST YEAR; ALTHOUGH, WE WILL BE SEEKING AGREEMENT IN THE CONTEXT OF FUTURE YEARS OF THIS MULTI-YEAR PROGRAM. A NUMBER OF JUSTIFICATIONS FOR THIS POSITION WERE PROVIDED BY THE GOS. FIRST, ALTHOUGH LIBERALIZATION OF GROUNDNUT MARKETING REMAINS ONE OF THE OBJECTIVES OF GROUNDNUT SECTOR REFORMS, THE INTRODUCTION OF SUCH A MEASURE MUST BE DONE PRUDENTLY IN ORDER TO AVOID A GENERALIZED COLLAPSE OF THE GROUNDNUT PROCESSING INDUSTRY. THIS COMING YEAR THE GOS WILL BE ELIMINATING ALL DIRECT SUBSIDIES WHICH WILL REQUIRE SIGNIFICANT ADJUSTMENT FROM THE INDUSTRY PARTICULARLY IN VIEW OF MEDIOCRE ESTIMATES FOR THIS YEAR'S GROUNDNUT CROP. OIL CRUSHING FIRMS ARE EXPECTING TO PURCHASE A MAXIMUM OF 300,000 MT - 350,000 MT TO BE COMPARED WITH A CURRENT TOTAL TRITURATING CAPACITY OF 700,000 MT. SECOND, THE GOS BELIEVES THAT AT LEAST ONE YEAR OF THE MAINTENANCE OF SONACOS' PURCHASING RIGHTS ARE JUSTIFIED ON THE GROUNDS THAT THE GOS REQUIRED SONACOS TO MERGE WITH SEIB WHICH IS IN EXTREME FINANCIAL DIFFICULTY AND IS CARRYING A SHORT-TERM DEBT ESTIMATED TO BE CFAF 10.0 BILLION OR DOLLARS 25 MILLION. THE FINAL ARGUMENT IS THAT WHILE SONACOS ENJOYS MONOPOLY PURCHASING RIGHTS ON PAPER, DE FACTO THE SITUATION IS DIFFERENT AND FARMERS DO HAVE A NUMBER OF ALTERNATIVES FOR DISPOSING OF THEIR GROUNDNUTS. THE PARALLEL MARKET CAN BE EXTREMELY ACTIVE AND FARMERS MAY SELL FOR ARTISINAL CRUSHING OR DIRECT CONSUMPTION. RECENT FIGURES PREPARED BY A TEAM OF FRENCH AGRICULTURAL ECONOMISTS ESTIMATE THAT THE PARALLEL MARKET HAS ACCOUNTED FOR BETWEEN 5 PERCENT AND 33 PERCENT OF TOTAL PRODUCTION. THE PRIMARY EXPLANATORY VARIABLE APPEARS TO BE THE RELATIVE COMPETITIVITY OF THE OFFICIAL PRODUCER PRICE.

26. THE ISSUE CONCERNING THE USE OF COVENANTS FOR THE FIRST YEAR AS CP'S TO THE SECOND YEAR WAS ALSO RAISED DURING THE WASHINGTON REVIEW OF THE PAIP. THE MISSION HAS PRESENTED A THREE YEAR PLAN FOR CONDITIONALITY TO THE GOS; ALTHOUGH, FORMAL REVIEW WAS RESTRICTED TO THE OBJECTIVES OF REFORM AND THE FIRST YEAR. THE PRINCIPLE INCORPORATED IN THE CONDITIONALITY IS THAT THE OBJECTIVES TO BE OBTAINED WITH FIRST YEAR COVENANTS ARE REPHRASED AS CP'S FOR THE FOLLOWING YEAR'S DISBURSEMENT. NEVERTHELESS, THE MISSION PREFERENCE IS TO MAINTAIN A CERTAIN AMOUNT OF FLEXIBILITY AS CONDITIONS MAY CHANGE SIGNIFICANTLY FROM ONE YEAR TO THE NEXT. THE MISSION INTENDS TO USE CP'S TO DISBURSEMENT AS A MEANS OF MAINTAINING REAL PRESSURE ON THE GOS FOR REFORM. WHERE REFORMS ARE IMPLEMENTED AHEAD OF SCHEDULE, CP'S SHOULD BE MODIFIED TO REFLECT THIS PROGRESS AND TO APPLY PRESSURE FOR ADDI-

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TIONAL POLICY CHANGE. SIMILARLY, WHEN THE REFORM PROCESS IS OBSTRUCTED BY CERTAIN UNFORSEEN DIFFICULTIES, THE CP'S SHOULD BE REASSESSED AND/OR MAINTAINED BASED ON THE MISSION'S BEST JUDGMENT AT THE TIME. 12

G. MISSION ECONOMIC ANALYSIS CAPACITY

27. THE MISSION RECOGNIZES THE IMPORTANCE OF REINFORCING ITS ECONOMIC ANALYTICAL CAPACITY IN ORDER TO SUSTAIN ITS COMPREHENSIVE APPROACH TO ECONOMIC POLICY REFORM. MISSION DIRECTOR LITTLEFIELD IS CURRENTLY DISCUSSING THE MISSION'S MANAGEMENT PLAN WITH DAA RICHARDS. LOCAL CAPACITY HAS BEEN REINFORCED THROUGH THE HIRING OF A SENEGALESE ECONOMETRICIAN.

H. USE OF FUNDS

28. THE DOLLAR SIDE IS TO BE USED TO SUPPORT THE GOS IN IMPLEMENTING MEDIUM-TERM STRUCTURAL REFORMS NEEDED TO REDRESS THE ECONOMY AND IMPROVE SENEGAL'S LONG-TERM GROWTH POTENTIAL. THE DOLLARS 15 MILLION PROGRAM GRANT WILL BE TRANCHED INTO TWO DISBURSEMENTS - AN INITIAL DOLLARS 10 MILLION EXPECTED TO BE DISBURSED AS SOON AS CP'S HAVE BEEN MET AND A SUBSEQUENT TRANCHE OF DOLLARS 5 MILLION FOR DISBURSEMENT SOMETIME DURING THE FIRST OR SECOND QUARTERS OF CY 86 AS THE CP TO SECOND DISBURSEMENT IS MET.

29. UPON RECEIPT OF THE DOLLAR FUNDS, THE BCEAO WILL DEPOSIT AN EQUIVALENT AMOUNT OF LOCAL CURRENCY IN A SPECIAL

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ACCOUNT. FUNDS WILL BE RELEASED UPON THE MUTUAL CONSENT OF THE USAID MISSION DIRECTOR AND THE GOS. THUS, THERE IS A CLEAR DISTINCTION BETWEEN THE DOLLAR SUPPORT PROVIDED BY THE U.S.G. AND THE LOCAL CURRENCY WHICH IS TO BE PUT UP BY THE GOS. A COVENANT IS BEING INCLUDED IN THE GRANT AGREEMENT TO ENSURE THAT GOS PROVIDES AN EQUIVALENT AMOUNT OF LOCAL CURRENCY. TO THE MAXIMUM EXTENT POSSIBLE, CFAF USE WILL SUPPORT AREAS OF CONDITIONALITY LINKED TO THE NON-PROJECT ASSISTANCE PROGRAM AND TO SUPPORT INSTITUTIONS DIRECTLY RESPONSIBLE FOR ENSURING THAT APPROPRIATE POLICY DECISIONS ARE IMPLEMENTED. ILLUSTRATIVE USES INCLUDE: (A) SUPPORT FOR WITHDRAWAL OF GROUNDNUTS AND VEGETABLE OIL FROM THE CPSP. THIS SUPPORT WILL ENABLE THE CPSP TO RECONCILE ITS ACCOUNTS AND WITHDRAW FROM THE SECTOR; (B) PROVISION OF LIQUIDITY TO THE BANKING SECTOR FOR USE IN PROVIDING CREDIT TO PRODUCTION-RELATED ENTERPRISES IN THE PRIVATE SECTOR; (C) PAYMENT OF GOS FINANCIAL OBLIGATIONS TO THE PRIVATE SECTOR TO STIMULATE ECONOMIC ACTIVITY AND (D) SUPPORT FOR EXPENDITURES OF RDA'S TO COVER PUBLIC SERVICE FUNCTIONS SUCH AS EXTENSION AND PLANNING.

31. MISSION BELIEVES THAT WE HAVE COMPLIED FULLY WITH THE INSTRUCTIONS OF THE ECPR. THE GOS HAS RESPONDED POSITIVELY ON THE GENERAL OBJECTIVES OF REFORM AND THE FIRST YEAR CONDITIONALITY. IMPLEMENTATION OF THE CONDITIONALITY AS NOW AGREED SHOULD HAVE A SIGNIFICANT IMPACT ON MEDIUM-TERM STRUCTURAL REFORM IN SENEGAL. PLEASE ADVISE SOONEST REGARDING MISSION AUTHORITY TO APPROVE THE ESF IV PAAD IN THE FIELD.
WALKER
BT

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TAGS:
SUBJECT: SENEGAL ECONOMIC SUPPORT FUND IV, 685-0288

REF: (A) DAKAR 13658 (B) STATE 372291

1. AID/W HAS REVIEWED REFTEL (A) POINT-BY-POINT AND, PER REFTEL (B), CONCURS WITH MEASURES TAKEN TO IMPLEMENT AS WELL AS WITH VARIATIONS IN CONDITIONALITY AS NEGOTIATED BY MISSION. MISSION IS TO BE CONGRATULATED ON THE QUALITY OF ITS RESPONSIVENESS TO ECPR'S CONCERNS. THEREFORE, MISSION MAY NOW AUTHORIZE THE PAAD IN ACCORDANCE WITH DOA 140, REVISED, FOR A TOTAL AMOUNT NOT TO EXCEED $15 MILLION. THE OBLIGATION SHALL BE FOR ONLY US DOLS 10 (TEN) MILLION UNTIL FINAL DECISION REACHED IN WASHINGTON ON FY86 BUDGET. WHEN FINAL DECISION MADE AND ADDITIONAL FUNDING IS AVAILABLE, AGREEMENT CAN BE AMENDED TO ADD NOT MORE THAN US DOLS 5 (FIVE) MILLION. SEPTEL WILL FOLLOW WITH INFORMATION ON BUDGET ALLOWANCE WHICH WILL CONFIRM AMOUNT TO BE OBLIGATED. ONCE ALLOWANCE RECEIVED, AGREEMENT MAY BE SIGNED.

2. ONLY CONCERN OF ECPR WAS WITH PARA 25, REFTEL (A). WHILE WE UNDERSTAND POLITICAL/ECONOMIC COMPLEXITY OF SITUATION, IT WAS FELT THAT MISSION HAD MADE A COMMITMENT IN AID/W PROJECT MEETINGS TO THE ELIMINATION OF MONOPOLY POSITION OF GROUNDNUT PROCESSING INDUSTRY. AGREEMENT WITH GOS SHOULD REFLECT SOME PROCESS OF CONTINUOUS DIALOGUE WITH, HOPEFULLY, SOME RESOLUTION BY THE SECOND YEAR. THIS COULD BE IN THE FORM OF ESTABLISHMENT OF A COMMITTEE TO LOOK INTO THE PROBLEM OR OF STUDIES TO DETERMINE ADVISABILITY OF ELIMINATING THE MONOPOLY POSITION AND INCREASING COMPETITION WHICH COULD BE IMPLEMENTED IN THE SECOND YEAR. WE URGE CONTINUED MISSION EFFORTS ON THIS POINT AND WOULD ENCOURAGE YOU TO PURSUE DIALOGUE WITH GOS WITH AIM OF ULTIMATELY ACHIEVING THIS OBJECTIVE. PLEASE KEEP US INFORMED.

3. CONCERNING REINFORCEMENT OF MISSION'S ECONOMIC ANALYSIS CAPACITY, LOCAL HIRING OF SENEGALESE ECONOMETRICIAN WILL BE HELPFUL, AND PER CHANDLER-LITTLEFIELD TELCON OF DEC 23, AFR NOW

PROCEEDING TO ASSIGN [illegible] ECONOMIST TO USAID, HOPEFULLY WITH (BUT POSSIBLY WITHOUT) INCREASE IN CEILING.

4. WE ARE PLEASED TO NOTE IN PARA 23, REFTEL (A), THAT THE MISSION WILL INFORM THE GOS IN WRITING THAT QUOTE ESF GRANTS SHOULD NOT APPEAR IN THE IMF TABLE ON GOVERNMENT FINANCIAL OPERATIONS IN ANY SPECIFIC TIME FRAME SINCE DISBURSEMENTS ARE DEPENDENT ON PROGRESS WITH RESPECT TO REFORMS AND AVAILABILITY OF FUNDS END QUOTE. WE HAVE ALL BEEN URGING THIS DE-LINKING OF THE ESF FROM ANNUAL IMF PROGRAM SO AS TO AVOID SOME OF PROBLEMS NOW BEING ENCOUNTERED.

5. PLEASE CONFIRM WHEN PAAD AUTHORIZED AND AGREEMENT SIGNED, AND ALSO, WHEN CP'S METPROPOSED METHOD AND DATA FOR DISBURSEMENT OF FUNDS.

6. HAPPY HOLIDAYS. ARMACOST
BT
#1755

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ANNEX 2

9235 PR/SG/ECO

19 DEC. 1985

Monsieur l'Ambassadeur,

A la suite de notre réunion du 17 décembre 1985, je vous confirme que le gouvernement sénégalais souhaite bénéficier du fonds de soutien économique accordé par les Etats Unis pour les trois prochaines années. Ce concours financier est très important pour permettre au Sénégal de conduire son programme de redressement économique et financier et de réaliser les priorités inscrites dans le VIIe Plan adopté par l'Assemblée Nationale.

Les conditions préalables au versement du fonds de soutien que vous avez proposées pour la première année sont conformes aux orientations du Chef de l'Etat. Je vous apporte certaines précisions complémentaires.

En ce qui concerne le paiement des droits de douane sur les importations de riz, je vous indique que 3.875 millions de F CFA auront été versés entre juillet et décembre 1985 et qu'un versement mensuel de 1 à 1,5 milliard est prévu d'ici la fin juillet 1986. L'objectif de 5 milliards sera donc réalisé en janvier 1986. Les sommes dues au titre de la péréquation ont été payées à hauteur de 500 millions depuis le 30 septembre 1985. Enfin le recouvrement par la Caisse de Péréquation et de Stabilisation des Prix des arriérés sur les ventes de riz à crédit a fait l'objet d'un effort exceptionnel au point d'atteindre environ 400 millions à la fin de cette année. Cet effort sera poursuivi en 1986.

Son Excellence -
Monsieur Lannon WALKER
Ambassadeur des Etats-Unis

D A K A R

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Annex 2

Je vous confirme par ailleurs que la péréquation sur l'arachide et l'huile végétale doit être supprimée, conformément aux décisions du Chef de l'Etat sur le rétablissement d'un équilibre de la filière huilerie. La SONACOS disposera de la faculté de proposer des changements de prix à la consommation pour l'huile végétale, en tenant compte d'une part de l'évolution des cours mondiaux et d'autre part des conditions du marché local. La SONACOS devra verser au Trésor Public les droits de douane correspondants à ces importations.

Le gouvernement a déjà pris l'engagement de laisser à l'huilier, dans le cadre de la fusion en cours de la SONACOS et de la SEIB, la possibilité d'ajuster l'outil de transformation industriel aux perspectives de la production et de la commercialisation de l'arachide par réduction éventuelle des capacités de trituration et par reconversion partielle des usines.

J'espère que ces précisions sont de nature à permettre une mise en place rapide du fonds de soutien des Etats Unis. L'administration nationale reste à votre disposition pour apporter les compléments d'information dont vos services auraient besoin pour la réalisation de ce programme.

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

Présidence de la République
LE MINISTRE D'ETAT
Secrétaire Général
Jean COLLIN

AMPLIATIONS :

- MAE
- MEF
- MPC
- MC
- MDR

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ANNEX 3.

INITIAL ENVIRONMENTAL EXAMINATION

Country: Republic of Senegal

Project Title: Senegal Economic Support Fund IV (685-0288)

Funding: Life of Project Funding $45.0 million

Period of Project: FY 1986-FY 1988

Activity Description: The purposes of the Economic Support Fund IV are to (1) provide budgetary support to the Government of Senegal (GOS) and (2) gain policy change in the key agriculture sector aimed at eliminating GOS dominance of the sector, reducing the burden of the sector on the economy, increasing domestic resource mobilization and recapitalizing the banking sector.

Environmental Action Recommended: Categorical Exclusion in accordance with Reg. 16, Section 216.2 (c)(1)(i): the action does not have an effect on the natural or physical environment.

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

Bureau Environmental Officer's Determination:

Approved: X
Disapproved:
Date: 12/19/85
AFR/TR/SDP: Bessie L. Boyd B Boyd

clearances:

GC/AFR:BBryant

ANNEX 4

LIST AND STATUS OF CONDITIONALITY ASSOCIATED WITH PAST NON-PROJECT ASSISTANCE PROGRAM

I. Agriculture Development Assistance (Sahel Development Fund): 685-0249.

A. Date Authorized: August 3, 1983 Agreement Signed: August 11, 1983

B. Purpose: To increase agriculture production through more widespread use of fertilizer, while encouraging the Government of Senegal to apply economic and financial policy reforms.

C. Description: This $5.0 million Development Assistance grant was to finance:

a) The importation of 9,200 MT of urea and 4,000 MT of sulphur ($2.86 million);

b) the freight differential at $85/MT ($1.37 million); and

c) Agricultural Sector Study and Agriculture Credit Study ($750,000). Agricultural Sector Study (Assessment) completed, Credit Study cancelled.

Principal local currency proceeds from the sale of fertilizer being used to strengthen village level cooperatives through literacy training programs, and provided a subsidy (20 percent) last year for the market price of fertilizer in order to cushion the impact of the government's overnight abolition of the subsidy for reasons of financial stringency.

D. Conditions Precedent to First Disbursement	Status
1. Boiler plate (opinion of counsel, procurement plan, specimen signatures).	Satisfied.
2. Formal agreement on IMF Standby Program (1983/1984).	Satisfied.
E. Conditions for Local Currency Disbursement	
1. Establishment of GOS/USAID Management Committee.	Satisfied.
2. Certification that village level cooperatives and producer groups have direct access to credit sources.	Satisfied by Law May, 1984.
3. Positive finding by Rural Credit Study on Senegal's new rural credit organizations (CNCAS).	N/A since counterpart no longer programmed for rural credit.
F. Special Covenants	
1. Government will not increase fertilizer subsidy above the (then) current 60 percent level before January 31, 1984.	Satisfied

2.	Government will reduce fertilizer subsidy to no more than 40 percent by January 1985.	Government abolished entirely. Through USAID intervention 1984-85 subsidy was 20%.
3.	Government will present plan to lower fertilizer subsidy to 25 percent by January 1987.	Satisfied (see above)
4.	Government will permit private sector to import urea directly without a government intermediary.	Satisfied
5.	Government will reimburse the private sector the amount of the subsidy.	N/A since government has removed all subsidies.
6.	Within 12 months (i.e., by August 1984), Government will present a plan for reorganization of the fertilizer marketing system to include the private sector.	Study completed. Plan requirement met May 23, 1985.
7.	Regarding fertilizer uses, Government will continue to press closer cooperation between research and extension services.	Efforts are continuing.
8.	Government will meet periodically, and no less than annually, to discuss progress in implementing these covenants and to discuss the status of the economy.	Discussions have, in fact, intensified since August, 1983 and are routine.
9.	Government will reduce outstanding seasonal credit by reimbursing CFA 10 billion ($25 million) by December 1984.	Satisfied.
10.	Government will reduce the CPSP deficit by 10 percent by December, 1984.	Satisfied.

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II. Economic Support Fund (FY 83): 685-0262

A. Date Authorized: July 11, 1983; Agreement signed: August 11, 1983.

B. Purpose: To assist Senegal to improve its balance of payments position, and to encourage the Government to implement the economic policy reforms set forth in the 1983/84 IMF Standby agreement.

C. Description: This $ 5.0 million commodity import program reimbursed the government $2.5 million for the value of goods imported from the U.S. during GOS Fiscal Year 1982/83, and $2.5 million for goods imported in FY 1983/84. An equivalent amount in local currencies was allocated to cover the costs to the Government of activities within Senegal's 1983/84 budget consistent with IMF targets. Mission received AID/W approval to amend the agreement in order to reprogram counterpart from rural roads.

D. Conditions Precedent to First Disbursement	Status
1. Boiler plate (opinion of counsel, procurement plan, specimen signatures).	Satisfied
2. Agreement with IMF on 1983/84 Standby program.	Satisfied

E. Conditions Precedent to Disbursement of Local Currency	
1. Formal agreement on the IMF Standby program (1983-84)	Satisfied
2. The CP's, dealing with the creation of a road maintenance revolving account and rural roads maintenance plan were no longer applicable since local currencies were shifted from use in roads program to repayment of crop credit to the banking sector.	

F. Special Covenants	
1. Efficient import procedure for CIP.	The USAID carried out the total $5.0 million under direct reimbursement program, thus this covenant did not apply.

2.	Road Maintenance Budget	N/A
3.	Road Maintenance and Improvement	N/A
4.	Periodic Consultation on economy	Consultations intense.

As part of the amendment of the project (see "C" above), the Mission recommended additional conditionality directed at the reforms of the CPSP, at that time newly transferred to the Ministry of Finance.

As Conditions Precedent to Disbursement of Local Currency, the GOS agreed to:

1.	Suspend all credit sales of PL-480 commodities.	Satisfied.
2.	Accept the principle of hiring outside technical assistance to reinforce CPSP financial management and establish an acceptable date which technical experts will be recruited.	Satisfied. Experts on site.
3.	Undertake an immediate audit of CPSP's accounts.	Satisfied.

As Covenants, the GOS agreed to:

1.	examine the possibility of reducing the CPSP's activities and of simplyfying or eliminating the purchasing and marketing roles of the CPSP.	Study completed and donor review held with GOS. Conditionality in multi-year ESF will address specific actions.
2.	require the CPSP to produce clear accounts of its overall situation by quarter and according to its various sectors of intervention (i.e. peanut, rice, sugar, tomatoes, flour, and cotton). The first accounts should be completed by July 1984 for the period March-June.	Delayed due to late arrival of TA. Now in place, accounts should be for forthcoming.

III. Economic Support Fund (FY 84): 685-0278

A. Date Authorized: December 7, 1983 Date signed: December 17, 1983.

B. Purpose: To encourage and assist the Government of Senegal to implement the economic policy reforms set forth in the 1983/84 IMF Standby agreement.

C. Description: A $10 million cash transfer to help the Government of Senegal reduce outstanding seasonal crop credits owed to the national banks.

D. Conditions Precedent to Disbursement	Status
1. Boiler plate (specimen signature, open bank account)	Satisfied
E. Special Covenants	
2. Government will provide USAID with copies of reports to IMF and other donors regarding compliance with stabilization program.	Satisfied.
3. GOS will comply with terms and conditions of IMF Standby.	All terms and condtions met.
4. Government will implement reforms in the agriculture sector as agreed with USAID and as consitent with the new sector policy being prepared by Government with donor help.	New Agricultural Policy announced by President in March 1984. Action has begun on implementation including elimina tion and restriction of RDAs.
5. The Program Agreement and Grant shall be free from all Senegalese taxes and fees.	Satisfied.

IV. Economic Support Fund (FY 85): 685-0287

A. Date Authorized: December 19, 1984 Date signed: December 28, 1984

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

C. Description: A $15.0 million cash transfer to help the Government of Senegal meet financial obligations to private banks with respect to payments on the national peanut seed stock.

D. Conditions Precedent to Disbursement	Status
1. Boiler plate (specimen signature, open bank account.	Satisfied.
2. Contract between GOS and oil crushing firms on management of seed stock.	Satisfied.
3. Draft contract-plan between GOS and SAED acceptable to USAID.	Satisfied.
4. Oil crushing firms meet contractual terms with GOS to repay debts to banking sector for 1983-84 groundnut purchases and pay excess profits to GOS treasury in accordance with agreed upon transaction costs.	Satisfied.

E. Special Covenants

1. GOS agrees to comply with terms and conditions of 1984-85 IMF Standby if one is concluded.	Standby concluded, June IMF progress report positive.
2. GOS to present plan for reorganization of fertilizer sector by private sector for 1985-86 crop year by May 31.	Satisfied.
3. SONAR and STN will be liquidated by May 31.	Law has been passed abolishing both organizations.
4. GOS will complete action plan for transfer of seed stock to over a 6 year period.	Satisfied.
5. Contract-plans acceptable to AID between SOMIVAC and SODEVA and GOS signed by June 30.	Drafts currently under review.

6.	Completion of diagnostic study by CPSP and recruitment of external technical assistance to strengthen finance and management.	Study complete Technical Assistance in place.
7.	Signature of contact-plan between GOS and SAED by January 31.	Satisfied.
8.	GOS will request a study of constraints to cereals marketing and a plan for removal of the constraints developed .	Satisfied.
9.	Over next 12 months GOS will increase its receipts as a percentage of GDP by 2 percentage points.	Not realized. With IMF and USAID help in FY 1986. Revisions of tax and customs codes should permit GOS to achieve this target.

OTHER DONOR CONTRIBUTIONS TOWARDS SENEGAL'S FINANCING REQUIREMENTS IN GOS FY 85/86

	Millions of Dollars	Billions of CFAF
TOTAL GAP	255.25	.02.1
Internal Financing		
Banking Sector	22.75	9.1
Statutory Overdraft	10.50	4.2
Long-term Bonds	2.50	1.0
TOTAL	35.75	14.3
External Financing		
Project Lending	50.00	20.0
Debt Rescheduling	48.50	19.4
Capital Grants	20.00	8.0
CCCE (France)	20.00	8.0
French Budget Grant	12.50	5.0
World Bank	18.75	7.5
STABEX	16.75	6.7
USAID	14.00	5.6
Switzerland	6.25	2.5
Net IMF	4.00	1.6
TOTAL	210.75	84.3
Remaining GAP	8.75	3.5

Potential Financing Sources

France (additional budget loan in CY 1986)
Saudi Arabia (budget loan)
World Bank (additional SAC disbursement).

Source: IMF table of Government Financial Operations.

Exchange Rate: $1 = 400 CFAF

STATUTORY CHECKLIST

FY 1986

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A.

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

The Program Grant appears in the FY 1986 Congressional Presentation, Annex I, page 379. No further notification is required.

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

None required.

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

	so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.	No. Program will not encourage regional development programs. It is aimed at a Senegal-specific problem.
4.	FAA Sec. 601(a) Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade: (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Reforms aimed at encouraging greater private initiative.
5.	FAA Sec. 601(b) Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	No direct effect.
6.	FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	N.A.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — NO.

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — N.A.

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? — N.A. Funds are not provided by Sahel appropriation.

10. FY 1985 Continuing Resolution Sec. 53?. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? — NO.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund — YES.

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? — NO.

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

NO.

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

NO.

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

N.A.

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

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

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

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

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

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

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

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States? NO.

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

2. Nonproject Criteria for Development Assistance

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

N.A.

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

N.A.

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

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

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

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

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

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

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

(iv) reconstruction after natural or manmade disaster;

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

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

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

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

N.A.

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

N.A.

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

N.A.

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — N.A.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? — N.A.

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N.A.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N.A.

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? N.A.

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

B. Construction

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

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N.A.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N.A.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES.

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo N.A.

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

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? N.A.

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? N.A.

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? N.A.

e. FAA Sec. 662. For CIA activities? .A.

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? .A.

g. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? N.A.

h. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? N.A.

i. FY 1985 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? N.A.

j. FY 1985 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? N.A.

k. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? N.A.

l. FY 1985 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? N.A.

ANNEX 7

ACTION MEMORANDUM FOR THE DIRECTOR USAID/SENEGAL

FROM: Joel Schlesinger, Chief
Project Development Office

SUBJECT: Senegal FY 1986 Economic Support Fund, 685-0288 (685-K-604)

I. Problem

Your approval is requested for a grant of $15.0 million from Section 531 (a) (1) of the Foreign Assistance Act of 1961, as amended, Economic Support Fund (ESF) appropriation, to Senegal to be executed as a cash transfer. It is planned that the total life of program funding of $15.0 million will be obligated in FY 1986 and disbursed in two separate tranches ($10.0 million and $5.0 million) when conditions precedent to each disbursement have been met.

II. Discussion

A. Program Description and Purpose

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

The need for program assistance to Senegal will continue throughout the FY 1986-FY 1988 period; based on the most recent figures of the IMF, the total financing requirements of the GOS on current and capital budgets from internal and external sources for GOS FY 1986 alone are estimated to be FCFA 84.3 billion or $ 210.8 million ($1= 400 CFAF). Senegal has compiled a solid record of implementing policy changes over the past two years but hard structural adjustment lies ahead. The Mission proposes to support these efforts through a multi-year ESF program. In GOS FY 1986, the GOS will contribute approximately 15 percent to meeting its own financing requirement gap and other non-U.S. donors will contribute approximately 76 percent. A fruitful coordination based on inter-related conditionality has been established among the principal donors to Senegal: IMF, France, World Bank, EEC and USAID. The purpose of this coordination is to reduce the dominance of the GOS in the economy. The results of coordination have been most evident over the past two years as the GOS undertook a series of politically and socially sensitive reforms.

The ECPR, held in Washington on November 27, 1985 to review the Program Assistance Initial Proposal (PAIP) for this ESF program, concurred that the ESF program must maintain a multi-year focus as a basis for developing a longer-term approach with the GOS aimed at resolving Senegal's structural problems. The program will, however, be based on annual and separate authorizations. Assuming that funding levels remain under $20.0 million, AID/Washington preference is to continue authorization of future PAADs in the field in accordance with DOA 140, revised. However, the USAID will submit, by cable, an annual progress report at the conclusion of each USG fiscal year.

This report will (1) describe GOS performance in implementing the previous year's conditions and covenants, (2) set forth conditionality which appears likely for the coming year and (3) discuss plans for changes in the program's long-term objectives compared to what was contemplated in the current year's PAAD.

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

The USAID has determined that the cash transfer mechanism is the most appropriate manner by which to achieve the program purpose. Upon certification by the Mission Director that the GOS has met the conditions precedent to each disbursement, the funds will be disbursed in accordance with mutual GOS and AID agreement.

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

B. Financial Summary

Life of program funding of $15.0 million is to be fully obligated and disbursed in two separate tranches ($10.0 million and $5.0 million) in FY 1986.

C. Analyses

1. Economic

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

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

The AID/Washington ECPR approved the Program Assistance Initial Proposal (PAIP) which contained the basic macroeconomic and agricultural justification for this ESF grant on November 27, 1985.

The Mission Project Committee (PC) found that the economic analyses contained in the Program Assistance Approval Document (PAAD) satisfactorily justify the need for this ESF program.

2. Reform Package

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

Both the AID/Washington ECPR and the USAID PC concur that the reforms associated with this grant constitute a significant advance in the continuing GOS assault on the serious economic problems presently facing Senegal.

GOS performance in implementing this reform package will be reviewed before a decision regarding future ESF programs for Senegal is made.

3. Human Rights

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

D. Conditions Precedents (CP) and Covenants

The $15.0 million grant is conditioned on the implementation of a series of policy change conditions described in Section IV and listed in detail in Annex 11 of this PAAD. These reforms are directed to the agricultural sector and promote measures which will substantially reduce GOS involvement in the sector.

In addition to the policy change conditionality, the GOS will establish a special account in the Central Bank and deposit therein currency of the GOS in amounts equal to disbursements under the grant. Funds in the special account may be used for budget support mutually agreed upon by AID and the GOS.

E. Implementation Plan

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

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

F. Major Implementing Agencies

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

AID Officers responsible for the implementation of this grant are:

Mrs. Carole Tyson
Deputy Director
USAID/Senegal

Mr. Cameron Pippett
AFR/PD/SWAP

III. Waivers

There are no waiver requests contained in this program.

IV. Justification to Congress

A Proposed Project Activity Statement for this ESF Program was contained in the FY 1986 Congressional Presentation, Annex I, Africa, page 379. No further notification to the Congress is required in this case.

V. Clearances

The AID/Washington ECPR held November 27, 1985 to review the PAIP for this grant was chaired by DAA/AFR Lois Richards. That ECPR approved the PAIP and delegated authorization of the PAAD to the Mission Director USAID/Senegal, subject to AID/Washington concurrence based on an interim reporting cable. AID/Washington concurrence with program as contained in the interim reporting cable was received on December 27, 1985 (State 391765). State 391758, received December 27, 1985, provided the Budget Plan Code and Allowance.

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

VI. Recommendation

That you sign the attached Program Assistance Approval Document (PAAD) facesheet and thereby approve life of program funding of $15.0 million for the Senegal ESF Program, 685-0288.

Clearances:

DDIR: CTyson (draft)
ADO: RHarvey
ECU: JDamon (draft)
RCON: MHorween
PRM: HLubell
RLA: EDragon (draft)

Technical Assistance Plan for Implementation of Policy Reforms
Under USAID/Senegal's Non-Project Assistance Program

Policy Area	Nature of Technical Assistance	Status	Source of Funding
A. Privatization of Rice Import Operations	Initial update of financial status of GOS rice operations	Completed by Arthur Andersen in Dec. 1984	PM and R
	Modalities for rice import operations during a two-year transition scheme	Searching for an appropriate consultant	Sahel Development Policy Project cofinancing with the World Bank
	Review of rice import operations following the end of the second year	Mission will organize a team for early 1987	To be determined perhaps Transfer of Technology Project
B. Phasing out of Price Equalization...	Final reconciliation of CPSP's accounts	Arthur Andersen has been working on this since 9/85	Sahel Dev. Policy FY 85
	Background analysis required to assist GOS in developing a plan to phase out fixed producer prices for export crops	Experts will be recruited in early 1986	Sahel Dev. Policy FY 85
	Analysis of impact of eliminating monopoly purchasing and/or import rights for sectors benefitting from price equalization	Experts in each sector are being recruited directly by the GOS	World Bank
C. Agro-Industry	Study of the relative efficiency of individual processing and management units	Experts will be recruited at the end of 1986	Transfer of Technology Project/ Possibility of World Bank cofinancing
D. Cereals Marketing and Pricing	Study on criteria for determining cereals floor prices	Experts will be recruited in early 1986	Sahel Dev. Policy FY 85
	Audit of CSA's and CPSP's cereals purchasing for the	An audit firm will be chosen in mid-1986	To be determined

Policy Area	Nature of Technical Assistance	Status	Source of Funding
E. Agricultural Input Distribution and Pricing			
Fertilizer:	Study of fertilizer distribution in Senegal - proposals for organization	Completed by Michigan State team based in Senegal and ADO in March 1985	PM and R
	Evaluation of the fertilizer CIP under the Agricultural Dev. Assistance Program FY 83	Completed by Devres in Sept. 1985	PM and R
	Evaluation of the impact of the fertilizer subsidy on fertilizer consumption and private sector distribution	Experts to be recruited in late 1986	Transfer of Technology or the Agricultural Production Support projects
Seeds:	Reorganization of the seed multiplication sector	Experts to be recruited in early 1986	Sahel Dev. Policy FY 85
	Seed Storage Study	Experts to be recruited in early 1986	Sahel Dev. Policy
F. Regional Development Agencies	No specific studies planned		
G. Banking Sector	Analysis of GOS monetary and credit policy and its impact on the types and sectoral allocation of credit in the economy	Study completed by local consultants in July 1985	PM and R
	Analysis of the means of reliquifying the banking sector while ensuring that new liquidity is directed to productive sectors	Study is in process and will be completed end of Dec. 1985	Sahel Dev. Policy FY 85

H. Fiscal Performance	IRS review of tax administration in the Direct Tax Department	Completed in Aug. 1985	PM and R
	Detailed fiscal performance study	TOR currently being formulated	Sahel Dev. Policy FY 86
	Real estate tax administration and prospects of introducing a fiscal cadaster	TOR to be developed with IMF and GOS in early 1986	Sahel Dev. Policy FY 86
	Provision of direct technical assistance to customs and/or direct tax department particularly in the area of computerization and taxpayer identification	TOR to be developed with IMF and GOS in early 1986	Technology Transfer project and monies set aside from the AEPRP (if approved)

Conditionality for USAID/Senegal's
Non-Project Assistance Program

Conditionality	Instrument
A. Privatization of rice import operations	ESF
B. Phasing-out of price equalization	ESF
C. Agro-industry	ESF
D. Cereals marketing and pricing	PL-480 Title I
E. Agricultural input pricing and distribution	Ag Prod Support
*F. Phasing-out of Regional Development Agencies' role in production related activities	Ag Prod Support
G. Fiscal reform and improved tax administration	AEPRP (if approved)
H. Improved financial intermediation through the banking sector	AEPRP (if approved)

The realignment of conditionality among the various elements of the USAID/Senegal non-project assistance program as stated above was determined during the ECPR held for this PAIP on November 27, 1985 in AID/W. The ECPR directed that this table be added to the PAAD.

POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK SAC CONDITIONALITY	IMF CONDITIONALITY
		CP's	CP's		
A. Privatization of Imported Rice Sector	1. Complete privatization of rice import operations with the exception of a GOS security stock.	1. Reinbursement of arrears on customs duties.	1. GOS will have privatized internal distribution of rice and the private sector will be handling at least 50% of rice import operations.	1. CPSP will no longer handle rice imports which will be progressively privatized.	Nothing in this area.
	2. Elimination of fixed price for rice to be replaced by a variable customs duty.	2. Payment of outstanding excess profits owed to GOS Treasury.		2. SONADIS will manage a 60,000 MT security stock.	
PROGRAM INSTRUMENT: ESP	2. Efficient functioning of a GOS security stock. 3. Targets for payment of arrear	3. Collection of arrears on credit sales Covenants 1. Elimination of quotas for internal distribution of rice.	3. Targets for payment of arrears on customs duties 80,000 MT to of outstanding credit will have been met.	3. SONADIS, in addition to the security stock, will be importing guarantee supply in the regions for a transition period ending 12/87.	
	4. Elimination of cross-subsidization of transport costs of rice.	2. Gradual privatization of rice imports beginning in June 1986. 3. Repayment of debt on previous rice import operations.	4. SONADIS will be on schedule with respect to payment of tax and customs duties on its rice imports. Covenants 1. Critical review of	4. Remainder of rice imports will be privatized and contracts will be determined by international competitive bidding. 5. The price of rice will be determined by the GOS and will re-	

4. Mechanism for managing GOS security/regulating stock by June 1986.	the rice importing system will be made before end May 1987 with a view to adjusting downward the GOS's share of the import market.	flect adequate margins and transportation costs.
5. Increase in margins to reflect transport costs to the region by June 1986.		6. Distribution will be fully privatized.
6. Appropriate staff reductions in parastatals dealing with rice import operations.	2. Consideration by end of May 1987 of abandoning a fixed price and liberalization of imports.	7. Equalization will be replaced by a specific tax and a customs duty.

POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK SAC CONDITIONALITY	IMF CONDITIONALITY
B. Phasing-out of price Equalization PROGRAM INSTRUMENT: ESF	1. Critical review of the economic impact of price equalization on stated objectives of revenue stabilization to producers and price stabilization for consumers. 2. Gradual phase-out of the fixed price system for export producer prices (cotton, groundnuts) and consumer prices for vegetable oil, sugar and wheat flour. 3.. Replacement of price equalization by taxes. 4. Renegotiation of existing contracts between the GOS and monopoly agro-industries. 5. Development of a time table for reducing administrative protection and financial support to agro-industries.	CP's 1. Elimination of price equalization on exported groundnuts and domestically consumed vegetable oil. 2. Setting of domestic consumer price for cooking oil in relation to price changes in world markets. Covenants 1. Establishment of a plan for phasing-out fixed producer prices of export crops by Dec 1986. 2. Study of possibility of replacing price equalization by a taxation system, conclusions for 12/86. 3. Rice equalization to be replaced by a tax which is to be adjusted periodically. 4. Detailed review of production costs of agro-industries subsidized by CPSP.	CP'S 1. CPSP will become a small unit under the Finance Ministry. 2. Where feasible equalization will be replaced by a fiscal instrument. 3. Producer prices for export crops will be allowed to fluctuate. 4. Monopoly marketing rights for export industries (cotton, groundnuts) will be eliminated. Covenants 1. With the exception of sugar, domestic consumer prices will adjust to world market trends. 2. A time table for reducing subsidies to all sectors covered by the CPSP (e.g. wheat flour, sugar, cotton) will be established by 3/87. 3. Process of renegotiating and/or suspending support agreements with agro-industries will be completed by 12/87.	Nothing specific on price equalization but general conditions on: 1. Reduction in effective protection accorded industries. 2. Harmonization of tariff structure on imports. 3. Elimination of price controls. 4. Replacement of rice equalization by a variable customs duty and specific tax.	1. Diagnostic studies of CPSP's operations by sector, to be followed by an action plan. 2. Retail prices of foodstuffs to be adjusted periodically to stimulate production of domestic cereals.

POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK SAC CONDITIONALITY	IMF CONDITIONALITY
C. Agro-Industry PROGRAM INSTRUMENT: ESF	1. Reinforcement of the groundnut sector reforms announced by President Diouf in April 1986. 2. Adjustment of oil crushing firms costs and crushing capacity to the realities of domestic and world developments in this sector. 3. Reduction in GOS support for agro-industries as a means of providing a more balanced trade-off between export crops and food crops. 4. To ensure that agro-industries do not adjust to the elimination of GOS subsidies by accumulating arrears on the reimbursement of crop credit to the banking sector.	CP's 1. Oil crushing firms have adjusted to maintain profitability in face of of fluctuating production and world prices (through reduced plant capacity and personnel). 2. Agro-industries will reimburse all outstand ing crop credit for 1984/85 crop year. Covenants 1. After 1985, there will be no more direct GOS subsidy to oil crushing firms. 2. By end March 1986, crop credit due on the seed stock will be reimbursed. 3. Sonacos will introduce cost accounting to determine efficiency of each processing and management unit by 6/86. 4. Oil crushing firms will develop a financially balanced means of managing a seed security stock for 1986/87 crop year.	CP's 1. Crop credit for 1985/86 crop year will be fully reimbursed. 2. Determination will be made of which processing units in groundnut and cotton sector are redundant. Covenants 1. Not only will prices of domestically consumed agro-industries be allowed to adjust in response to world market contions (see first year condition under price equalization) but prices will be considered as indicative only. 2. A financially balanced means will be developed for supporting floor prices for export crops by 12/87.	1. Movement towards total liberalization of the groundnut sector completing the process initiating in April 1985. 2. Disengagement of GOS from the groundnut seed stock. 3. Creation of a groundnut seed security stock of 50,000 MT. 4. An action plan for dealing with groundnut seeds must be prepared and implement before June 1986. 5. As of the 1989/90 crop year all subsidies on groundnut seeds will be eliminated.	1. Reimbursement of outstanding crop credit for 1984/85 crop year by March 1986. 2. Implementation of groundnut sector reforms announced in April 1985.

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POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK CONDITIONALITY	IMF SAV CONDITIONALITY
D. Cereals Marketing and Pricing	1. To liberalize restrictions on cereals marketing as a means of attracting larger private traders into this area thus increasing the limited absorptive capacity of the current marketing outlets. 2. To promote the concept of a flexible floor price for cereals which will be adjusted in relation to the domestic supply situation.	Self-Help Measures: 1. The GOS will officially announce before end Dec. 1985 that: - any person or organization will be permitted to buy and sell cereals without restriction. - all restriction on storage and internal transport of cereals will be removed. - the producer prices for cereals will be considered floor price. 2. A working group comprised of the public and private sectors will recommend floor prices based on economic criteia for for each crop year beginning in 1986/87. 3. GOS will undertake an independent audit of GOS purchase of cereals in 1985/86. 4. GOS will create a working group to study mechanism for supporting a floor price for 1986 harvest.	(Subject to approval of another Title I program) Self-Help Measures 1. Continued implementation of cereals marketing liberalization. 2. A mechanism which does not lead to an open-ended financial commitment will be developed to support the floor price 3. A study will be conducted to determine whether constraints to cereals marketing have in fact been eliminated	1. Preparation of a cereals plan to be discussed with donors in April 1986. 2. Liberalization of all restrictions on cereals marketing with the exception of paddy. 3. Marketing of paddy will be progressively privatized as SAED disengages. 4. Need to maintain a certain level of protection for domestic cereals through a high price for imported rice. 5. Agreement to apply a quota on volume of rice imports. 6. Temporary subsidy for transformed products from local cereals.	Nothing in this area.

POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK CONDITIONALITY	IMF CONDITIONALITY
E. Agricultural Input Pricing and Distribution	1. To improve cereals seed and fertilizer distribution systems by developing private sector involvement. 2. To gradually reduce subsidies on fertilizer as farmers become accustomed to paying a cost price on a cash basis.	CP to ESF The GOS will provide a written statement cleared by the the Ministry of Rural Development that no state credit program for fertilizer sales will be established outside of what exists through RDAs.	Fertilizer 1. RDAs will progressively phase-out fertilizer credit sales. 2. The fertilizer subsidy will be limited to CFAF 16/kg in the second year or to approximately 15%.	Nothing on Cereals Seeds Fertilizer 1. Fertilizer subsidies will not be financed by the Treasury. 2. Subsidies will be phased-out and will disappear by the 1989/90 crop year	Nothing in this area
PROGRAM INSTRUMENT: Agricultural Production Support (APS) with some ESF reinforcement before APS comes on stream in the area of fertilizer.	3. To encourage the development of a plan to rationalize the seed sector by limiting the GOS role.	APS 1. The fertilizer subsidy will be limited to CFAF 24/kg in the first year which represents approx. 25%. 2. Exoneration on customs duties and and internal taxes will be maintained during the life of the APS.	Seeds: 1. GOS will develop and implement a plan to rationalize the seed sector. GOS role will be limited to research on foundation seeds and quality control. 2. The private sector will be performing the majority of of multiplication storage & sale of selected seeds by the end of the second year.	3. Fertilizer imports will be progressively liberalized from now through 1985/90. 4. Marketing will be progressively transferred to the private sector as RDAs withdraw. 5. Prices will reflect regional transport costs.	

POLICY AREA	GENERAL OBJECTIVES	FIRST YEAR USAID CONDITIONALITY	SECOND YEAR USAID CONDITIONALITY	WORLD BANK CONDITIONALITY	IMF CONDITIONALITY
F. Phasing-out of Regional Development Agencies' role in production activities	1. To reinforce the process set out in the New Agricultural Policy to phase-down RDAs and restrict their role in direct production activities. 2. To reduce personnel and GOS budget subsidies required to maintain RDAs.	1. Contract-plans acceptable to USAID and including a schedule of personnel reductions will be signed between the GOS and SODEVA and SOMIVAC by June 1986. 2. The cost of public service functions of RDAs must be fully budgeted by the GOS and disbursed, beginning in FY 86/87.	1. RDA personnel must be reduced according to schedules in SOMIVAC and SAED contract-plans. 2. All production-related functions at the regional level will be phased-out.	1. Reduction in role of RDAs to planning and extension. 2. To eliminate subsidy needs according to a specific time table. 3. To reduce personnel costs.	Nothing in this area.
PROGRAM INSTRUMENT: Agricultural Production Support	3. To define a new role restricted to planning and programming and the progision of responsive extension services.		3. Each RDA will establish an accounting system which clearly distinguishes between project funding and GOS-provided public service funding.		

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POLICY AREA	GENERAL OBJECTIVES	FIRST TRANCHE CONDITIONALITY	SECOND TRANCHE CONDITIONALITY	WORLD BANK CONDITIONALITY	IMF CONDITIONALITY
G. Fiscal Reform and Improved Tax Administration (domestic resource mobilization).	1. To readjust tax rates and modify effective tax rates through better collection.	1. Special exemptions from customs duties extimated to be $273 m in 1984/85 will be reduced by at least 25%.	1. Implement tax and customs reforms as agreed upon with major donors and GOS tax/customs experts	1. Revision of fiscal code with a view to simplifying the tax system.	1. Implementation of recommendations made by an IMF fiscal team.
	2. Through fiscal reform and impact of collection on profitability of certain investments (e.g., real estate) to encourage investment in productive sectors and in particular agriculture.	2. At least CFAF 20.0 billion will be collected in tax arrears which are currently extimated to be CFAF $3.2 billion or $133 m.	Complete feasibility test on the possibility of developing a real estate	2. Completion of the feasibility study on a real estate registry system. December 1985.	2. Finalize the report of the National Commission for Tax Reform by
PROGRAM	3. To reduce the need for external budget support to cover critical repayment of agriculture debt and arrears to the private sectors.	3. Finalize draft reform for fiscal legislation by Feb. 1986 which is to be applied beginning in July 1986.	3. Serious consideration of a proposal to sell off land titles to interested property owners.	3. Revision of customs duties and adoption of of reinforced customs law.	3. Reinforce the National Committee to combat customs fraud.
INSTRUMENT	4. To rationalize customs duties so that imports of capital goods are less taxed than those of luxury goods.	4. Need to harmonize tax rates on earned income and to lower maximum rates.	4. Consolidation of certain taxes and review of corporate and business taxes in response to new policy in the industrial sector.	4. Decision to computerize customs.	4. Establishment of an ad hoc commission to collect tax arrears.

POLICY AREA	GENERAL OBJECTIVES	FIRST TRANCHE CONDITIONALITY	SECOND TRANCHE CONDITIONALITY	WORLD BANK CONDITIONALITY	IMF CONDITIONALITY
H. Improved financial intermediation through the Banking Sector (domestic resource mobilization).	1. To reliquify the banking sector which would in turn make resources available for productive uses particularly in the agricultural sector.	1. Agreement by the GOS to take the question of the applicability of current interest rate spreads to the WAUM council of ministers.	1. Key banks should begin to improve the relationship between assets and liabilities.	1. Study on WAMU banks is to be undertaken.	1. Reliquification of the banking sector through: (a) reimbursement of arrears to the private sector. (b) reimbursement of ONCAD debt.
	2. To increase domestic savings captured by the banking system through a diversification of savings instruments.	2. Study of means of providing incentive for banks to move into higher risk areas such as agriculture and small and medium-scale entrepreneurs.	2. Determination of technical assistance which may be required to reinforce development banks' capacity to analyze small companies' balance sheets, income statements, etc.	2. Accelerated reimbursement of of ONCAD debt.	

AEPRP	5. To rationalize fiscal incentives to the industrial sector and to potential agro-industrial investors in particular (e.g., irrigated agriculture).	5. Finalize recommendations for downward revision and harmonization of customs duties June 1986.	5. Final decision on a method for for computerizing customs and consolidating assessment and collection functions.		5. Completion of a study on a property tax register for Dakar.
		6. Make institutional organizational decisions as presented in IRS and IMF reports.			

PROGRAM	3. To shift the maturities and sectoral allocation of credit to to the economy through a critical review of the current interest rate structure.	3. Introduction of rehabilitation plans for key banks in difficulty (e.g., BNDS, USB, BCS, Sonabanque).	3. Monitoring of sectoral allocation of bank credit and the balance between short and medium term credit.
INSTRUMENT **AEPRP**	4. To reinforce the capacity of certain banking institutions which specialize in lending for development purposes and to small and medium-scale businesses.	4. Progressive reduction in certain banks recourse to central bank rediscount	
		5. Critical review of interest rates and services provided with savings account-	

MACRO-ECONOMIC TABLES AND DATA

Table 1

GOVERNMENT FINANCIAL OPERATIONS 1983/1984 - 1984/1985
(Billions of CFAF)

	1983/84	1984/85 Prog	1984/85 Rev Nov
1. Total Revenues and Grants	201.6	224.7	216.1
Revenues	189.4	212.8	203.9
Grants	12.2	11.9	12.2
of which: capital	6.0	5.0	5.0
2. Current Expenditures	205.3	226.2	217.1
Wages and Salaries	100.4	109.0	106.6
Interest Due on Public Debt	36.9	46.2	44.4
of which: external	36.4	45.2	43.8
internal	0.5	1.0	0.6
Other	68.0	71.0	66.1
3. Treasury Special Accounts (net	-6.9	-5.0	-4.1
4. Treasury Correspondents (net)	6.2	4.6	1.7
CPSP	--	2.3	0.0
Other	6.2	2.3	1.7
5. Current Operations Balance (1-1capital-2+3+4)	-10.4	-6.9	-8.4
6. Capital Expenditures	40.3	35.0	34.7
Budgetary	10.0	10.0	9.7
Extrabudgetary	30.3	25.0	25.0
7. Total Expenditures and Net Lending (2-3-4+6)	246.3	261.6	254.2
8. Overall Fiscal Deficit (commitment basis: 1-7)	-44.7	-36.9	-38.1
9. Payment Arrears of the Government and Public Agencies	-2.0	-7.0	-7.6
10. Crop Credit Repayment	-20.6	-2.6	-4.0
11. Overall Fiscal Deficit (cash basis: 8+9+10)	-67.3	-46.5	-49.7
12. Financing Needs	67.3	46.5	49.7
External Financing	36.7	33.3	36.0
Drawings	35.9	38.9	40.9
Treasury	11.6	18.9	20.9
Other	24.3	20.0	20.0
External Debt Rescheduling	29.2	26.5	28.3
Amortization	-28.4	-32.1	-33.2

Table 1 (cont'd)

GOVERNMENT FINANCIAL OPERATIONS 1983/1984 - 1984/1985
(Billions of CFAF)

	1983/84	1984/85 Prog	1984/85 Rev Nov
Domestic Financing	30.6	13.2	13.7
Banking System	35.2	19.2	17.9
Repayment of ONCAD Debt to Banks	-8.8	-10.0	-10.0
Nonbank Borrowing	1.4	2.0	2.0
Other	-2.8	2.0	3.8

Memorandum Items:			
Nominal GDP	979.6	1112.2	1112.2
Overall Fiscal Deficit (commitment basis)	-44.7	-36.9	-38.1
as a percentage of nominal GDP	4.6%	3.3%	3.4%

Source: 1983/84 figures: IMF August 7, 1985
1984/85 figures: IMF revised Nov 16, 1985

Table 2

BALANCE OF PAYMENTS 1982/1983-1985/1986
(Billions of CFAF)

	1982/1983	1983/1984	1984/1985	1985/1986
Trade Balance	-118.6	112.1	-109.9	-60.4
Exports (fob)	216.7	239.5	243.7	313.2
of which: peanuts	59.5	53.4	31.8	66.0
Imports (fob)	335.3	351.5	353.6	373.6
Services (net)	-50.4	-81.7	-76.6	-85.0
of which: interest on public debt	37.1	62.1	61.8	70.1
Transfers	54.1	70.0	70.0	74.0
Private	11.1	13.6	15.0	17.0
Public	43.0	56.4	55.0	57.0
CURRENT ACCOUNT BALANCE	-114.9	123.7	-116.5	-71.4
Capital Account	58.2	74.9	55.2	51.8
Public Capital	38.6	35.0	30.2	23.8
of which: amort of public debt	32.1	36.7	39.4	49.3
Private Capital	19.6	39.9	25.0	28.0
Errors and Omissions	-2.6	1.2		
OVERALL BALANCE				
Before rescheduling	-59.3	-47.6	-61.4	-19.6
Rescheduled debt	28.6	36.1	35.0	12.9
After rescheduling	-30.7	-11.5	-26.4	-6.7

Source: Direction de la Prevision et de la Conjoncture,
Ministere de l'Economie et des Finances
December 1985

MONETARY SURVEY, December 1981 - June 1985 Table 3
(Billions of CFAF)

	1981 Dec	1982 June	1982 Dec	1983 June	1983 Dec	1984 June	1984 Dec	1985 June Est
Net Foreign Assets	-121.6	-133.3	-159.3	-178.8	-182.5	-198.4	-210.1	-216.3
Central Banks	-98.2	-120.7	-139.6	-163.4	-170.3	-181.5	-181.8	-206.3
Commercial Banks	-23.4	-12.6	-19.7	-15.4	-12.2	-16.9	-28.3	-10.0
Domestic Credit	370.3	398.6	446.1	468.0	480.2	489.7	501.1	514.0
Claims on Gov't (net)	40.7	70.2	87.5	90.4	106.9	120.4	122.3	127.8
Claims on Private Sector	329.6	328.4	358.6	377.6	373.3	369.3	378.8	386.2
of which:								
crop credit	33.3	28.3	33.6	42.9	22.0	11.9	14.6	18.6
ordinary credit	296.3	300.1	325.0	334.7	351.3	357.4	364.2	367.6
Money and Quasi Money	216.9	238.1	262.3	256.8	272.7	276.2	287.1	284.7
Other Items (net)	31.8	27.2	24.5	22.4	25.0	15.1	3.9	13.0

Source: IMF and BCEAO

Table 4

QUANTITATIVE PERFORMANCE CRITERIA UNDER 1984/85 ADJUSTMENT PROGRAM
(in Billions CFAF)

	1984 Dec	1985 Mar	1985 June
Domestic Credit	36.9	47.2	37.3
Claims on Government (net)	1.2	17.6	19.2
Domestic Arrears of the Government and Public Agencies	2.6	-4.0	-7.0
Repayment of ONCAD Debt to Banks		5.0	10.0
New External Borrowing by the Government or with Government Guarantee (In Millions of SDRs)			
1-12 years maturity	10.0	20.0	20.0
of which: 1-5 years maturity	2.0	4.0	4.0

Source: Ministry of Economy and Finance, Dec. 3, 1984

PUBLIC AND PUBLICLY GUARANTEED DEBT* Table 5
(Breakdown by Major Lenders of Total OUtstanding Disbursed Debt,
Debt Commitments, and Disbursements) 1979-1983
(In millions of SDRs)

	1979	1980	1981	1982	1983
Suppliers Credits					
Outstanding, disbursed	68.7	49.4	31.2	14.0	12.1
Commitments	3.2		0.9	0.9	
Disbursements	13.8	2.7	0.1	7.6	1.9
Financial Institutions					
Outstanding, disbursed	184.2	177.4	160.7	270.9	297.4
Commitments	33.1	15.7	59.3	70.4	1.2
Disbursements	67.1	58.1	6.4		
Multilateral Loans					
Outstanding, disbursed	153.2	209.5	299.6	362.2	507.9
Commitments	58.5	151.3	146.9	61.5	131.6
Disbursements	37.1	55.8	81.2		
Bilateral Loans					
Outstanding, disbursed	199.6	246.7	417.0	684.4	805.3
Commitments	44.9	108.2	181.3	290.5	150.5
Disbursements	51.7	75.9	127.8		

Source: Ministry of Finance

*medium and long term debt

Table 6

Production and Surface Area of Cereal Crops 1977/1978-1984/1985
(In thousands of hectares and tons)

YEAR	CORN SURFACE AREA	CORN PRODUCTION	COWPEAS SURFACE AREA	COWPEAS PRODUCTION
1977/78	53.6	33.2	57.2	11.7
1978/79	56.4	54.1	62.4	18.2
1979/80	67.7	46.2	55.4	18.8
1980/81	78.4	57.0	54.3	17.1
1981/82	55.8	68.0	68.5	28.8
1982/83	86.2	82.2	50.3	12.6
1983/84	70.5	60.6	39.4	12.9
1984/85*	101.4	146.9	128.5	79.7

YEAR	RICE SURFACE AREA	RICE PRODUCTION	MILLET/SORGHUM SURFACE AREA	MILLET/SORGHUM PRODUCTION
1977/78	63.3	63.0	942.3	360.2
1978/79	91.3	146.4	1054.7	752.0
1979/80	78.7	96.6	967.5	520.6
1980/81	67.1	64.7	1116.7	545.0
1981/82	69.1	120.0	1176.6	736.4
1982/83	68.2	105.2	990.9	585.2
1983/84	52.0	108.5	783.6	351.8
1984/85*	78.2	147.0	1335.7	949.6

*estimated

Source: Ministry of Rural Development, Senegal

Table 7

Production and Surface Area of Industrial Crops 1977/1978-1984/1985
(In thousands of hectares and tons)

YEAR	PEANUTS SURFACE AREA	PEANUTS PRODUCTION	COTTON SURFACE AREA	COTTON PRODUCTION
1977/78	1161.2	509.3	47.1	47.2
1978/79	1154.3	1050.7	48.3	33.8
1979/80	1047.9	672.9	30.9	27.2
1980/81	1064.6	521.3	29.9	21.0
1981/82	1010.1	869.9	39.3	33.7
1982/83	1121.1	1091.7	36.1	43.7
1983/84	987.5	568.8	33.4	31.0
1984/85*	604.6	601.2	38.8	40.0

*estimated

Source: Ministry of Rural Development, Senegal

Table 8

BREAKDOWN OF THE 1984/85 GROUNDNUT HARVEST (in metric tons)

I. Total verified production	235,482
Oil Seeds:	184,040
SONACOS	(176,359)
SEIB	(7,681)
Seed Stock:	47,772
SONACOS	(38,231)
SEIB	(9,541)
II. Triturated	124,858
SONACOS	(93,818)
SEIB	(31,040)
III. Edible Groundnuts	3,670
SONACOS	(3,670)
IV. Total (excluding losses and seeds)	187,710

Table 9

GROUNDNUT EQUALIZATION FOR 1984/85 CROP YEAR (MILLIONS OF CFAF)

I. Expenditures	
Variable costs	11,041
SONACOS	(10,580)
SEIB	(461)
Other costs	7,752
SONACOS	(7,127)
SEIB	(626)
Compensation for fixed costs	4,606
SONACOS	(3,453)
SEIB	(1,153)
Total Expenditures	23,399
II. Receipts	
SONACOS	(22,517)
SEIB	(781)
Total Receipts	23,298
III. Balance	+ 101.0

SEED STOCK DEFICIT FOR 1984/85 CROP YEAR (MILLIONS OF CFAF)

I. Expenditures	
Direct Purchases	3,020
SONACOS	(2,426)
SEIB	(594)
Blocked Storage	4,602
SONACOS	(4,106)
SEIB	(496)
Other expenditures	2,987
SONACOS	(2,135)
SEIB	(852)
II. Receipts	
Retained earnings	2,760
SONACOS	(2,645)
SEIB	(115)
Sales of Surplus seeds	4,905
SONACOS	(2,999)
SEIB	(1,906)
Total Receipts	7,665
III. Balance	2,944

THREE-YEAR CONDITIONALITY PLAN FOR ESF ASSISTANCE

I. PRIVATIZATION OF RICE IMPORT OPERATIONS

FIRST YEAR

A. Conditions Precedent to Disbursement

1. Reimbursement of CFAF 5.0 billion in arrears on customs duties on imported rice to GOS

2. Payment of a minimum of CFAF 500 million by the CPSP to the GOS in the context of sums due on price equalization for imported rice operations.

3. Collection of CFAF 400 million in arrears on rice credit sales made in 1983 and 1984.

B. Covenants

1. Announcement by February 1986 that, beginning in July 1986, Senegal will progressively privatize rice import operations and internal distribution through the elimination of a quota system. The GOS reserves the right to designate a specific wholesaler to distribute rice in the event of a rice shortage in any given region.

2. To facilitate the transfer of imported rice operations from CPSP to private importers, the final reconciliation of the CPSP's accounts will be completed by April 1986.

3. The introduction of a mechanism to manage the GOS security/regulating stock by July 1986 with a corresponding reduction in the level of CPSP's personnel.

4. The CPSP will reimburse a cummulated sum of CFAF 10.0 billion in customs duties and will collect an additional CFAF 400 million of arrears on earlier credit sales by July 1986.

5. Beginning in July 1986, regional retail sale prices of rice are to reflect adequate margins and the full cost of transport. Prices will be considered maximum prices and not as fixed prices.

SECOND YEAR

A. Conditions Precedent to Disbursement

1. The GOS will have completely privatized internal rice distribution and the private sector will be responsible for at least 50% of rice imports.

2. The regulating/security stock will be in place.

3. Targets for payments of arrears on customs duties and for collection of arrears on earlier credit sales will have been met.

4. SONADIS will be on schedule with respect to the payment of customs duties and taxes on imported rice.

B. Covenants

1. The GOS will undertake a critical review of the new rice importing system before May 1987 and will recommend, if appropriate, a reduction in the privileged position accorded SONADIS.

2. The GOS will study the possibility of abandonning the fixed price of rice and of further liberalizing rice import operations subject to the World Bank's conditionality that an overall quota on rice imports is not to exceed 340,000 MT for the period through 1989. The conclusions of the study will be available before end May 1987.

THIRD YEAR

During the third year, liberalization objectives for the imported rice sector will be met.

II. PHASING-OUT OF PRICE EQUALIZATION

FIRST YEAR

A. Conditions Precedent to Disbursement

1. The GOS agrees to eliminate price equalization on exported groundnut products and on domestically consumed vegetable oil.

2. The GOS authorizes 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. Oil crushing firms are in turn liable for taxes and duties on imported vegetable oil and for export taxes on groundnut oil.

B. Covenants

1. The GOS will establish a plan before December 1986 for phasing-out fixed producer prices of export crops in favor of a flexible floor price mechanism before October 1987.

2. The GOS agrees to complete a study before December 1986 on the feasibility of replacing price equalization by a fiscal instrument (i.e. export taxes, tax rebates, internal taxes).

3. The GOS will undertake to perform a detailed review of the production costs of agro-industry being subsidized by the CPSP with a view to establishing a time-table for reducing CPSP's price supports. The review is to be completed before December 1986 and the time table should be completed by March 1987 and should include all sectors covered by the CPSP.

4. Price equalization on imported rice will be replaced by July 1986 by a special tax that will be readjusted periodically.

5. Oil crushing firms will pay all customs duties and taxes on imported vegetable oil and on exported groundnut oil in a timely fashion through CY 1986.

SECOND YEAR

A. Conditions Precedent to Disbursement

1. The CPSP will be converted into a small unit under the Finance Ministry.

2. To the largest extent possible price equalization will be replaced by flexible use of fiscal instruments.

3. The producer price for export crops will be free to fluctuate in relation to international price fluctuations and domestic supply conditions within the context of a floor price mechanism.

4. The monopoly purchasing rights of agro-industries (oil crushing firms and SODEFITEX) will be eliminated.

Covenants

1. With the exception of sugar, the domestic consumer prices will be allowed to adjust in relation to changes in market conditions.

2. A detailed time-table will be established before March 1987 for the progressive reduction of subsidies accorded by the CPSP to the wheat flour, sugar and cotton sectors.

3. The process of renegotiating and or suspending current contractual agreements between the GOS and agro-industries will be completed by the end of December 1987.

THIRD YEAR

Significant progress will be made with respect to the phasing-out of price equalization for agro-industries and the mechanism for adjusting floor prices to producers and indicative prices to consumers will be flexible.

III. REFORM OF AGRO-INDUSTRY

FIRST YEAR

A. Conditions Precedent to Disbursement

1. Oil crushing firms are given GOS approval to take all necessary measures required to maintain profitability in the face of fluctuating production levels and international prices (e.g. through a reduction in excess plant capacity and personnel).

2. Agro-industries (cotton and rice) will reimburse all outstanding crop credit for the 1984/85 crop year.
SONACOS will reimburse the crop credit and interest owed to the BECEAO with respect to groundnuts for crushing.

3. The second tranche of dollars 5 million will not be disbursed until SEIB has reimbursed the totality of the capital plus interest owed with respect to purchases of groundnuts for crushing for the 1984/85 crop year.

B. Covenants

1. After 1985, there will be no more direct GOS subsidy to oil crushing firms (with the possible exception of the seeds sector).

2. By end March 1986, crop credit, due on the seed stock for the 1984/85 crop year, will be fully reimbursed.

3. SONACOS will submit to an in-depth audit of its processing and management units to be completed before end December 1986.

4. Oil crushing firms will develop a cost efficient means of managing a groundnut security stock for the 1986/87 crops year.

SECOND YEAR

A. Conditions Precedent to Disbursement

1. Crop credit for the 1985/86 crop year will be fully reimbursed by agro-industries.

2. The necessary information on the relative efficiency of different processing plants for groundnuts and cotton will be studied with a view to determining the relative utility of each plant.

B. Covenants

1. Before May 1987, the floor prices for producers of export crops should adjust to respond to changes in market conditions.

2. Before end of 1987 a financially balanced mechanism must be introduced by the oil crushing firms to support floor prices to producers.

3. Before July 1987, the products of agro-industries which are used for the domestic market (e.g. cotton oil, groundnut oil) will be subject only to an indicative price which will be adjusted upward or downward in response to changes in market conditions.

THIRD YEAR

Crop credit for the 1986/87 crop year will be fully reimbursed by the agro-industries before release of the final year's disbursement.