

PDBCA 025

AID 1188-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. 685-0262
PAAD		2. COUNTRY Senegal
	PROGRAM ASSISTANCE APPROVAL DOCUMENT	3. CATEGORY Commodity Financing-Direct Reim- bursement and Standard Procedures
4. TO: A.R. Love Deputy Assistant Administrator		5. DATE
6. FROM Sara Jane Littlefield USAID/SENEGAL		6. CYS CHANGE NO
		7. CYS INCREASE
8. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 5,000,000		TO BE TAKEN FROM: Economic Support Fund
9. APPROVAL REQUESTED FOR COMMITMENT OF:		10. APPROPRIATION
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD July 11, 1983-Sept 84
14. COMMODITIES FINANCED		14. TRANSACTION ELIGIBILITY July 11, 1983

16. PERMITTED SOURCE U.S. only: 5,000,000. Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: 5,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION

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

Local currency generated by use of this grant will be used to help the Senegalese Government repay outstanding crop credit (1982-1983). These funds will inject badly needed liquidity into the Senegalese banking system and allow the GOS to meet the IMF Standby Agreement in the third and fourth quarters of 1984.

19. CLEARANCES	DATE	20. ACTION
REG/DP		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC		
AA/PPC		
M/EM		
M/SER/COM		
AA/PRE		
		<i>J. P. Johnson</i> 3/29/84 AUTHORIZED SIGNATURE DATE
		Acting Asst. Administrator - Africa TITLE

CLASSIFICATION:

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

4256

ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, ^{Attn} Norman Cohen

SUBJECT: Senegal - Economic Support Fund (ESF) Project (685-0262)

Problem: Your approval is required to amend the subject \$5 million Commodity Import Program Grant to reallocate local currency uses from the originally planned rural roads activity to the payment of outstanding 1982-83 crop credit.

Discussion:

A. Background

The Mission in Dakar 12480 requested that: (1) the full FY 1983 \$5.0 million ESF package be converted to the Direct Reimbursement Method (DRM) instead of the original authorization which called for a DRM program of \$2.5 million and a \$2.5 million standard CIP; (2) a reallocation of local currency uses from the originally planned rural roads activity to the payment of outstanding 1982-83 crop credit; and (3) the addition of new conditionality in the form of conditions precedent to disbursement of local currency and covenants. The Mission's justification for the program change is based on the desire to assist the Government of Senegal (GOS) meet the third and fourth quarter performance criteria under conditions of their 1983/1984 IMF Standby Agreement. The decision to change the program to a complete DRM was based on the argument that implementation of a standard CIP would not occur in time to have a positive impact on the current standby, especially with respect to generating local currency which could be used to offset their budget deficit. The Mission, in the process of generating the paperwork for the part of the program which was originally designated DRM, thought that the Senegalese had sufficient imports from the U.S. since November 1983 which could qualify as part of a second DRM. They cited one large \$2.9 million oil import shipment from the U.S. as being more than sufficient to cover the dollar value of the additional \$2.5 million they wished to be converted to DRM. A SER/COM review of this transaction showed that it did not meet the 50 percent shipment on U.S. flag carriers criteria as specified by PL 664 and to date the Mission has been unable to submit supporting documentation. To prevent delay on this action, the Mission has requested that this amendment be limited to reallocation of local currency usage and the addition of new conditionality.

B. Reallocation of Local Currency

Discussions with the GOS have led to the conclusion that allocating funds for the upgrading and maintenance of feeder roads would not achieve the major objective of the subject Commodity Import Program, which is to assist Senegal with quick disbursing funds and enable it to continue its current macroeconomic reform program. The USAID believed at the time the PAAD was submitted to AID/W that funds invested in roads constituted an element taken into account in the evaluation of GOS's economic performance under the Standby Agreement. The Mission subsequently learned in discussions with World Bank and GOS officials last November that the road funds were extra-budgetary and would not be taken into account under the IMF program. Parenthetically, the World Bank's fifth highway project, which it was our original intention to support with our upgrading and maintenance of feeder roads, has been postponed and will begin only in GOS fiscal year 1984-85. The Mission is currently studying the feasibility of a rural roads project to complement the World Bank project and AID's development activities in the agricultural sector.

The Mission requested a GOS determination on how it would like to have the funds programmed and found that the GOS wanted the local currency generated by this \$5.0 million CIP to be used to continue repayment of their outstanding crop credit which is continuing to have a devastating effect on the banking sector in the country. The outstanding crop credit issue is handled in detail in the PAAD for the \$10 million ESF grant (685-0278) approved in December 1983. It should be noted that during the December review of that Grant, the Mission advised AID/W that Senegal would probably require additional assistance of this nature. The Mission was advised at that time to consider reprogramming local currencies which were to be generated under this and other non-project assistance which had been approved for Senegal.

C. Covenants and Conditions Precedent:

In addition to reprogramming the local currency usage, the Mission also intends to add new conditionality in the form of covenants and conditions precedent to disbursement of local currency.

Conditions Precedent:

1. CPSP, the price stabilization organization in Senegal, should suspend all credit sales of P.L. 480 commodities.
2. CPSP should accept the principle of hiring outside technical assistance to reinforce its financial management

and establish an acceptable date by which technical experts will be recruited. The appropriate GOS agency is to proceed immediately with a financial audit of the CPSP's accounts.

Covenants:

1. A study, to start immediately by Arthur Anderson, to examine the possibility of reducing the CPSP's activities and of simplifying or eliminating its purchasing and marketing roles.
2. The CPSP is to produce clear quarterly financial reports, broken down according to its various operations (i.e. groundnuts, rice, sugar, tomatoes, flour and cotton). The first quarterly accounts covering the period March-June should be completed by July 1984.

AFR/DP, while accepting that reforms of this nature are clearly warranted given that responsibility for the outstanding crop credit rests more with CPSP than any other entity in Senegal, feels that the major thrust of the covenants and conditions should be the abolition of CPSP. AFR/DP has no problem with the requests for a study which hopefully will recommend eliminating CPSP's purchasing, marketing and pricing roles, nor with the requirement that a more formalized reporting system be implemented by CPSP. AFR/DP is concerned that the condition precedent requiring hiring outside technical assistance to reinforce CPSP's management capabilities will probably result in a consolidation of the organization's responsibility rather than a real effort on any of the parties concerned to redefine its role. AFR/SWA and AFR/PD feel we should defer to the Mission's judgement and include the proposed covenants and conditionality in the amended PAAD as requested.

The proposed grant amendment will require the deletion of the following conditions precedent to disbursement of local currency and special covenants concerning program implementation:

- Section 2.2. (b)
- Section 2.2. (c)
- Section 6.2
- Section 6.3

The sections listed above refer to the road maintenance program, which will no longer be pertinent with approval of this amendment.

Revision of the Transaction Eligibility Date

The original PAAD purports to establish July 1, 1982 as the transaction eligibility date. However, AID Handbook 4 states that

the transaction eligibility date is "normally" the date the PAAD is approved but it may be earlier if the Geographic Bureau has obtained waiver from the Administrator or later at option of geographic bureau. Moreover, the Office of the General Counsel has concluded that in no event may the transaction eligibility date precede the U.S. fiscal year in which the PAAD is approved. Accordingly, we propose to establish July 11, 1983 as the transaction eligibility date.

Recommendation: That you sign the attached PAAD Face Sheet amendment.

- Attachments: (1) Economic Support Fund (685-0262) PAAD Face Sheet Amendment
- (2) Grant Agreement for Economic Support Fund (685-0262)

Clearances:

DAA/AFR/CWA:JPJohnson J19
AFR/PD/SWAP:JRMcCabe draft
AFR/PD/SWAP:GSlocum draft
AFR/SWA:DChandler draft
GC/AFR:BBryant draft
AFR/DP:HJohnson HJohnson
SER/COM/ALI:PHagan draft

Drafted:USAID/Senegal:AFR/PD/SWAP:HPatrick:3/15/84:vd:1227G