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Privatization and the Development of the Private Sector in the Senegal River Valley

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Abbreviations and Acronyms

BICIS--Banque Internationale pour le Commerce et L'Industrie au Senegal

CCCE--Caisse Centrale de Cooperation Economique

CIF--Cost, Insurance and Freight

CNCAS--Caisse National de Credit Agricole du Senegal

CPSP--Caisse de Perequation et Stabilisation des Prix

CR--Communaute Rurale

CSS--Compagnie Sucriere Senegalaise

GIE--Groupement d'Interet Economique

GOS--Government of Senegal

LBII--Louis Berger International, Inc.

OSBI--Outreach Senegal Bovine Industries

OMVS--Organisation pour la Mise en Valeur du Fleuve Senegal

SAED--Societe d'Amenagement et d'Exploitation des Terres du Delta

SRV--Senegal River Valley

SOCAS--Societe de Conserverie Alimentaire du Senegal

SOGEC--Societe Generale pour le Commerce

SNTI--Societe Nationale de Transformation Industrielle

SOSPEL--Societe Senegalaise pour l'Elevage

USAID--United States Agency for International Development

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Privatization and the Development of the Private Sector in the Senegal River Valley

I. Executive Summary.

The private sector, emerging from the long shadow cast over the Senegal River Valley by the parastatal known as SAED, shows strong signs of entrepreneurial spirit to respond to the twin opportunities created by the completion of the river dams and the privatization of SAED.

At present, four principal institutional constraints are slowing the pace of development of the private sector in the Senegal River Valley (SRV): finance, land tenure, the continued presence of SAED, and the uncertain future course of rice policy.

Though not uniquely institutional, the overwhelming constraint facing the emerging private sector is finance. However, the Caisse National du Credit Agricole du Senegal (CNCAS), or Credit Agricole, which replaced SAED as the source of crop credit and credit for equipment in the SRV, is cited for strong management, even from those who complain about high interest rates.

The complex land tenure system is also a vexing constraint, particularly for prospective large-scale private planters who otherwise have the means to develop land independently of SAED.

Though other crops could potentially become important, the dominant commercial activity in the Senegal River Valley for the remainder of the century will most likely center on rice production, processing and marketing. The private sector, privatization, and rice policy are the critical factors in the development of the Senegal River Valley in the 1990s. Although SAED has privatized several of its functions, its continued presence in the commercial chain hampers the full development of the private sector in the SRV.

However, while the privatization of SAED's remaining functions is a necessary condition for the growth of the private sector in the Senegal River Valley and improving the productivity and efficiency of the rice sector, it is not a sufficient one.

Privatization must be accompanied by an adjustment to national rice policy that addresses at least two key concerns. First, since the price of locally produced rice is set at present by government decision rather than market forces, the private sector needs to have a better understanding about the future course of rice policy to make key business and investment decisions. For example, prospective buyers of the two SAED rice mills will naturally want to know what the ex-mill rice price will be.

Second, with low volume and high unit cost, rice production from the Senegal River Valley cannot be remotely expected to compete with, much less replace, imports in Dakar in the foreseeable future. This makes the complete liberalization of rice impractical in the near term. However, the method of nurturing irrigated rice in the Senegal River Valley has thus far effectively precluded it from becoming economically competitive. Since Senegal cannot continue to subsidize rice from the Valley indefinitely, the sector needs to be given every chance to become more efficient. This implies the adoption of a much more flexible, competitive pricing structure for rice produced in the Senegal River Valley.

It is clear that without the participation of the private sector, and an expanded role for it through the continued privatization of SAED subject to new rice policies, the Senegal River Valley has little chance of fulfilling its long envisioned role as an axis of growth and development.

This report first discusses Senegal's overall structural adjustment program and its impact on the Senegal River Valley. The report then describes the existing and emerging private sector in the Senegal River Valley. It goes on to identify and analyze the key institutional constraints holding the private sector in check. Finally, an action plan is proposed to address these constraints.

II. Background: the Senegalese Economy and Structural Adjustment.

The government's efforts to promote the private sector in the Senegal River Valley and privatize most of the functions traditionally performed by SAED is one facet of its overall program of structural adjustment and policy reform. The structural adjustments at the national level have already helped to alleviate some policy related constraints that would have slowed the growth of the private sector in the Senegal River Valley.

Adjustment became unavoidable at the end of the 1970s, when poor financial and investment policies, declining terms of trade and successive droughts plunged an already weakened economy into a severe crisis.

The new strategy, which began to take shape in mid-1983, calls for the progressive withdrawal of the state from direct involvement in productive activities and the simultaneous promotion of the private sector.

An important part of the program is the New Agricultural Policy, launched in 1984. The gcvernment is liberalizing the import and marketing of agricultural inputs, such as fertilizers and seeds, and gradually trasferring production and marketing operations from the rural development agencies to producer cooperatives and the private sector.

The Cereals Plan of June 1986 is another important part of agricultural policy. It aims at achieving self-sufficiency in cereals by stimulating production through the liberalization of cereals marketing and the processing of domestic coarse grains for local consumption.

New industrial policies have contributed to a reduction in distortions through tax and tariff reforms, a reduction in administrative controls and the gradual liberalization of pricing policies.

A number of national constraints on private sector development, which are also constraints on the private sector in the Senegal River Valley, are being addressed at a national level in the structural adjustment program.

In order to simplify the regulatory environment for private enterprises and improve labor productivity, the Government revised the labor code in 1987. The revisions allow enterprises to hire employees without state interference.

The new investment code, also of 1987, aims at reducing the bias toward capital-intensive industries and making small-and medium sized enterprises more efficient. Under the code, small and medium-scale companies are given greater advantages than large companies. (Small and medium-scale companies are defined in the the code as those generating investments net of deductible value added tax (VAT) and net of permanent working capital of FCFA 5 to 200 million, and creating at least three permanent Senegalese jobs.)

The code lists four different regions. The Senegal River Valley falls under Zone D. Under the provisions for Zone D, a small or medium enterprise can take advantage of the following benefits:

--Exemption from customs duties and fees for equipment and materials not produced or manufactured in Senegal. This exemption is limited to 2 years for small and medium-scale companies and to 3 years for other companies.

--Exemption from taxes on sales by local suppliers of goods, services and work needed for the execution of the approved program.

--Exemption from fees for acts of incorporation and increases in capital necessary for the execution of the approved program.

--Exemptions for a period of 12 years for the minimum tax, business taxes, and employer's tax on wages paid to Senegalese employees. This exemption rate is 100 percent for the first 9 years of authorization, declining thereafter by 25 percent a year until the end of the exemption period.

The GOS is also pursuing the reform of the public enterprise sector, which focuses on the liquidation of non-viable public enterprises, the privatization of others (such as SAED), and the rehabilitation of the rest.

III. The Economy of the Senegal River Valley

A. The Senegal River Valley. The Senegal River Valley's endowment in natural resources is poor. The Senegal River Valley is subject to a short, erratic rainy season. In general, the soils are of low fertility, high salinity and poor structure. Before the completion of the two dams and the possibilities of year round irrigation, the SRV's potential for economic growth was considered modest.

The Senegal River Valley forms a long crescent arching from Mali past Bakel to Saint Louis. Saint Louis stands at the mouth of the Senegal River. Once the capital of French West Africa, and home to many large enterprises and trading houses, this charming sea-side city underwent a commercial contraction following the relocation of the capital to Dakar after independence in 1960.

The principal towns along the Valley are Ross-Bethio, Richard Toll, Dagana, Podor, Matam and Bakel. The Senegal River Valley, formally known as the Region de Saint Louis, is divided into the Delegations of Dagana (frequently referred to as the Delta), Podor, Matam and Bakel.

The "traditional" private sector has been eclipsed by SAED since the 1960s. An attempt at an inventory would start with the small farm-households of the Valley, which have traditionally grown short-cycle millet intercropped with cowpeas and, when possible, flood recession sorghum, and, more recently under the direction of SAED, irrigated rice, along with some tomatoes, onions and corn.

Such a list would also include the artisans in the villages who produced needed secondary goods and services. The commercants and itinerant traders who move foodstuffs and manufactured household requisites along the Valley are also a visible private sector force. Two primary divisions exist: the grossistes, or wholesalers, who operate out of Dakar and Saint Louis and supply the goods for the detaillants, or retailers, in the larger villages along the valley. The recent flight of the Maurs who operated small grocery shops along the Valley has opened up new possibilities for Senegalese commercial activity along the SRV.

An inventory prepared by the Cellule de l'Apres Barrages of the more "modern" small and medium sized enterprises in the SRV numbers about 40, with the majority concentrated in Saint Louis. The list includes 26 bakeries, 2 carpentry shops, a small shop, a drip irrigation system company (owned by CSS), and about 5 companies involved in construction and public works.

Although they are actually larger than medium, the list also includes CSS, SNTI and SOCAS, as well as the two SAED rice mills. Located on over 7,000 hectares of land in Richard Toll, CSS is the largest private sector enterprise in Senegal. The monoply producer of sugar in Senegal, CSS provides employment for about 6,000 people. An indication of its imposing presence in the valley is given by its fleet of more than 100 operating tractors. This is to be compared with the 30 to 50 operatingal tractors for SAED and the private sector in the entire valley. (SAED owns many more, but most are broken down.)

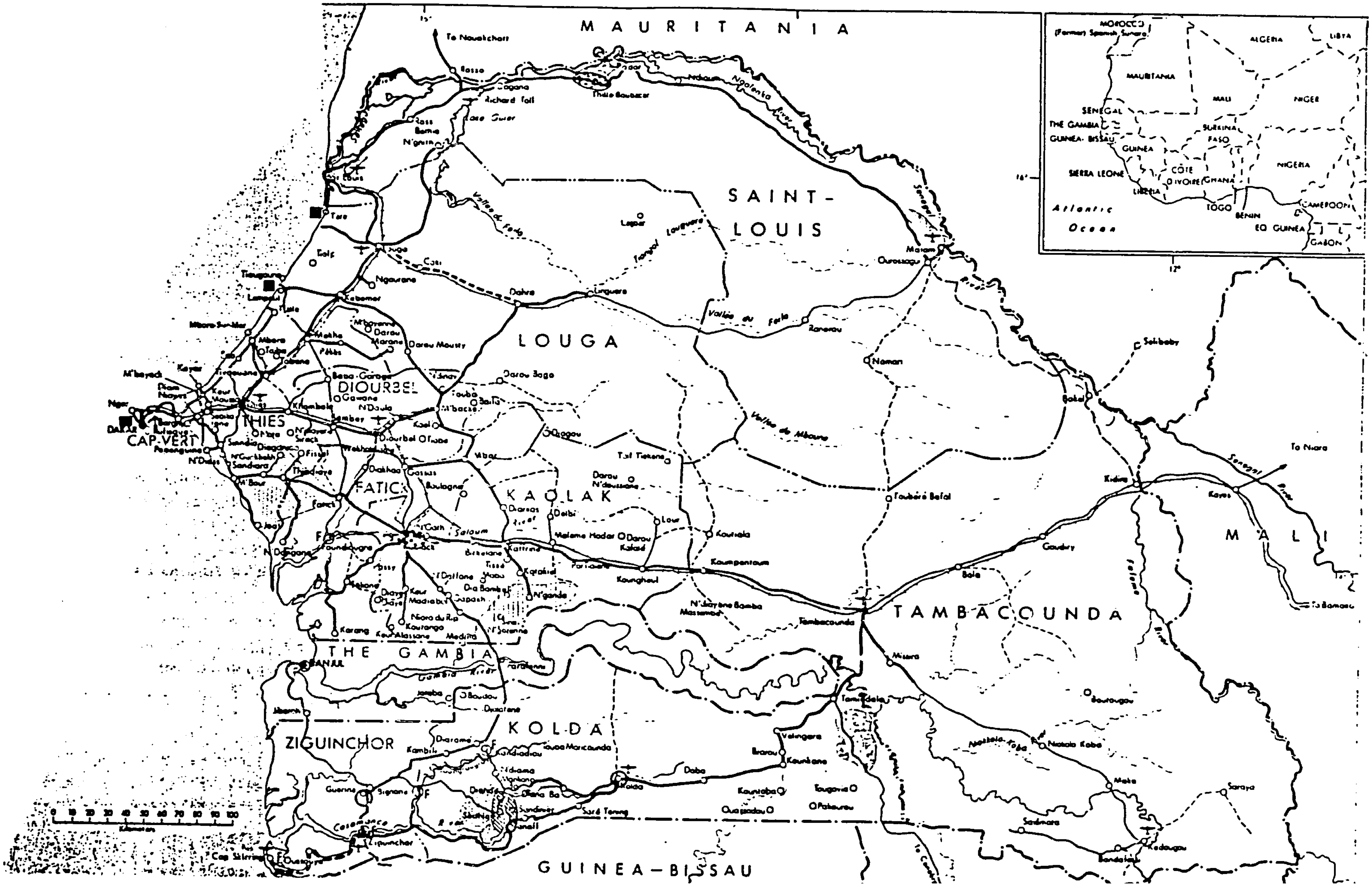
SNTI and SOCAS are concerned primarily with the production of cans of tomato sauce which is produced in their factories. The tomatoes come primarily from farmers under contract on adjacent lands. To date, tomatoes in Senegal are chiefly of interest for making tomato sauce, a key ingredient in the national dish, poisson au riz. Demand for fresh tomatoes is limited.

These sugar and tomato concerns do not serve as good models for the emerging private sector agro-industrial development of the Senegal River Valley. They produce at government guaranteed prices, and are very high cost producers with underutilized capacity. Their products sell at prices substantially above CIF Dakar prices. Rice policy needs to ensure that this sector does not follow a similar pattern.

B. Rice in the Senegal River Valley. Since Independence, the economy of the Senegal River Valley has been dominated by the efforts of the Government of Senegal to expand local rice production through SAED.

Irrigated rice was first introduced into the SRV prior to independence. The SRV has been the country's second largest rice producer. (The bulk of Senegalese rice production has traditionally come from the Casamance, where swamp and upland rice have been grown traditionally as a staple crop.)

The duration of the drought of 1968-1973 and high world prices for rice, especially between 1972 and 1974, led the government to place an emphasis on food production security and on ultimate self-sufficiency in food. Policy focused on increased rice production in the Senegal River Valley under more secure, albeit costly, irrigated systems of production.


MAURITANIA
To Nouakchott
Richard Toll
Podor
SAINT-LOUIS
LOUGA
Dahra
Linguere
Kebemer
Matam
Bakel
Kidira
Kayes
To Nioro
DIOURBEL
THIES
CAP-VERT
DAKAR
FATICK
KAOLAK
Koungheul
Goudiry
TAMBACOUNDA
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SENEGAL
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GUINEA-BISSAU
GUINEA
BURKINA FASO
SIERRA LEONE
CÔTE D'IVOIRE
GHANA
NIGERIA
LIBERIA
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BENIN
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A large portion of the rice development costs were met by the substantial foreign aid that flowed into Senegal during and after the drought. Senegal therefore did not bear the full investment costs of this policy.

All rice production in the Fleuve has been under the supervision of a large, parastatal organization--Societe d'Amenagement et d'Exploitation des Terres du Delta (SAED)--which provided improved seed, chemical fertilizers, insecticides, and herbicides on credit to the project rice farmers. The input distribution system both subsidized the delivery of most inputs to the farm and financed the working capital required for their purchase.

In addition to these inputs, SAED provided machinery services for plowing and seeding on credit to farmers on the large perimeters. (On the smaller perimeters, typically in Matam and Bakel, these operations are carried out by hand.) As discussed below, most of these functions have been privatized.

Table I shows the number of hectares of land under irrigation in the SRV, although not all are necessarily fully utilized in any one season.

C. Rice Marketing. SAED stills holds a monopoly on paddy purchases, thus legally eliminating private traders.
Two large milling units run by SAED are used for this officially purchased paddy. The Ross Bethio mill, constructed in 1971, has a capacity of 6 tons/hour. The other, constructed in 1952, is at Richard Toll and has a capacity of 7 tons per hour.

In 1987, SAED contracted out for the milling of some rice to Delta 2000, a privately owned rice mill in Nianga. In addition, there are over 100 small diesel powered rice decorticators in the SRV, which, though technically illegal, have grown steadily in number during the last decade in response to the vagaries of performance by SAED.

Although success has been achieved in expanding rice production in the Senegal River Valley, these increases have been insufficient to meet growing demand. The deficits have continued to be met by imports. High investment costs and high levels of modern inputs have led to high production costs for rice, forcing the government to adopt protective trade policies.

In order to offset the differences between delivered costs of rice from the SRV and imported rice, common official wholesale and retail prices are established through the Caisse de Perequation et Stabilisation des Prix (CPSP.) In effect, the CPSP levies a tax on imported rice, a part of which is used to subsidize rice produced in the Senegal River Valley.

TABLE I.

Land Under Irrigation in the Senegal River Valley

(No. of hectares)

Departement	Dagana	Podor	Matam	Bakel	Total
SAED Perimeters	12,876	7,694	5,182	1,704	27,456
CSS	7,300				7,300
SOCAS	300				300
SNTI	100				100
Private Perimeters and Foyers	1,534	50	34		1,618
Research	33				33
TOTAL	22,143	7,744	5,216	1,704	36,807

Source: Ministere du Plan et de la Cooperation
As of June 1988

D. The Privatization of SAED. The privatization, or "desengagement," of SAED goes back to 1981. The terms of its privatization have been laid out in the Lettres de Mission between SAED and the GOS. SAED is presently working under the third Lettre de Mission, with the fourth due sometime this year.
Under the second Lettre de Mission between SAED and the GOS, SAED was to move away from doing construction and maintenance work and toward a new role of planning, monitoring and extension work in the Senegal River Valley.

In effect, the "desengagement" of SAED has only really got underway during the last two years. For the last two seasons, SAED has turned over the provision of fertilizer to the private sector, although in some areas it has sold off its remaining stocks.

SAED has also ceased to provide pesticides, although it continues to provide seeds. As described below, it has ceded the role of supplier of crop and equipment credit to Credit Agricole.

In 1987/88, SAED ceded most of land preparation works of the hivernage rice season to the private sector, principally SNTI, which prepared 38 percent of total hectares under irrigated cultivation, and SOGEC, which prepared 22 percent. SAED itself prepared 18 percent. For the hivernage rice season in 1988/89, the percentage of total land prepared by SAED fell a few points to 16 percent.

SAED continues to maintain the large water pumping stations. It continues to own and operate the two large rice mills at Ross Bethio and Richard Toll. It continues to receive 178 FCFA from the CPSP for the rice it produces in these mills, and for the rice processed for it under contract by Delta 2000.

E. L'Apres Barrages. The saline incursions up the Senegal River from the Atlantic and the general insecurity of water availability were traditional physical constraints on the development of the Senegal River Valley. The recent completion of a downstream saltwater barrage (at Diama) and an upstream storage dam (at Manantali) will permit irrigation throughout the year and the development of double cropping. "L'Apres Barrages" is a popular phrase in Senegal signaling that a new phase of potential development has been ushered into the Senegal River Valley.

IV. The Emerging Private Sector in the Senegal River Valley

The completion of the two dams, the attractive producer price for rice, and the privatization of SAED have attracted private sector interest in the Senegal River Valley, especially in the Delta.

A. The Local Private Sector. The last two years have witnessed a dramatic increase in the demand for land, especially in the

Communaute Rural of Ross Bethio. Land in the Delta had traditionally suffered from saline incursions. With the dam at Diama, land is valuable and sought after, especially land near the principal canals and waterways.

Private planters have set up or would like to set up irrigated perimeters of 25 to 100 hectares, and frequently larger lots. They are willing to undertake development costs independently of SAED--prepare secondary and tertiary canals, buy the water pumps, undertake land preparation, and buy needed inputs.

The 85 FCFA per kilo price for paddy rice is very attractive to these farmers. Many of the large scale private planters also seem to be interested in selling inputs to the farmers located on the smaller SAED perimeters, and providing agricultural services, such as land preparation.

Another interesting private sector development is the growth of the GIEs, or Groupements d'Interet Economique. The GIEs are legally recognized entities, and are eligible to receive credit through the Credit Agricole. They must have a minimum of two members.

The prospects for profitable irrigated farming, especially in the the Delta, has led to an explosion of GIEs. There were an estimated 46 GIEs in the SRV in 1986/87, 202 in 1987/88, and 360 in 1988/89. There are well over one hundred in the Communaute Rural of Ross Bethio alone. Over 100 GIEs have organized a Union of GIEs in Saint Louis to provide a common focus for their concerns. One interesting idea of the union is seeking foreign assistnace directly from donors rather than indirectly through SAED or the government.

The elements of the "new" private sector which are responding to the opportunities in the Senegal River Valley, and are interested in supplying inputs such as fertilizer, pesticides, seeds, agricultural tools and equipment, motor pumps, and spare parts, are found primarily in Dakar at the moment.

The major companies involved in this part of agro-industry for the Senegal River Valley include such companies as Matforce, Equipplus, and AFCO. Because of the rather small market in Senegal, they tend to sell a wide range of goods.

Although all three regard the Senegal River Valley as a growth area, at the moment, they are basically adopting a "wait and see" approach. Even with the privatization of SAED, they think that the market will still be quite small in the immediate future. For example, the estimated yearly sales of tractors in the Senegal River Valley is about 50.

Establishing representative offices in the SRV is considered to be expensive. Equipplus had an office in Podor, but had to close it because of cost. AFCO does not have any field representatives. Matforce has two, one in Saint Louis and another small one in Matam. The Matforce office in Saint Louis is called Oualo-Agrimat. During the field trip, Ouala-Agrimat repeatedly was cited as a dynamic, hard working enterprise.

Senchim is the national distributer of fertilizer. Senchim has representatives in Ross-Bethio and Podor. In addition, numerous individuals have sold fertilizer to farmers on a independent basis.

The Societe Generale pour le Commerce (SOGEC) has offices in both Dakar and Saint Louis. SOGEC is interested in selling fertilier and providing land preparation services. During the last two rice seasons it has prepared on contract 2,700 and 3,500 hectares of land. It also has about 100 hectares of land in the Delta.

For the last two seasons, SNTI has used its tractors to prepare land for the rice seasons also. It has been the most active in this respect. CSS, with its enormous fleet of equipment, is also apparently weighing the possibilities of getting involved in hiring out its equipment.

There is presently one private rice mill, Delta 2000, operating out of Nianga under contract to SAED. The owner started in 1987 with credit supplied by Shule, a German maker of rice decorticators, to purchase a decorticator with an 800 kilo per hour capacity. Over the last two years, he has reinvested profits, purchased new Taiwanese decorticators, and has increased capacity to 4 tons per hour.

There are also over 100 small, diesel operated decorticators operating in the Senegal River Valley.

B. Foreign Investment. The Government of Senegal is also interested in attracting foreign investment into the SRV. A study by the International Finance Corporation on the possibilities of foreign investment in the SRV noted that: "...there is a long way to go before foreign investments will come into the Senegal River Basin. The reasons are the cost of irrigation, the cost of drainage, the poor quality of the soil (low fertility and high salinity), the lack of high yielding varieties commanding a high value-added acclimatized to the harsh climate, and the high cost of direct inputs."

One foreign investment project is currently underway, however. Outreach Senegal Bovine Industries (OSBI) is a joint venture between Outreach International. Ltd. of New York and the Societe Senegalaise pour l'Elevage (SOSPEL) of Dakar. The purpose of the project is to develop an integrated agro-business in Senegal. The Government of Senegal has granted 11,500 hectares of land to OSBI in the Delta region. The objective of OSBI is to produce ultra high temperature (long life) milk, fruit drinks, bottled water and meat, primarily for consumption in Senegal. The total cost of the project is US$15,750,000. The Economic Community of West African States (ECOWAS), the Banque Ouest Africaine de Developpement (BOAD) and OSBI are each financing one third of the total cost.

V. Institutional Constraints on the Development of the Private Sector

A two week field trip to the SRV presented an opportunity to talk directly with the emerging private sector and discuss the constraints they face. The principal ones to emerge are finance, land, the continuing presence of SAED, and uncertainties over future rice policy.

Of course, some of the most binding constraints on the economic development of the Senegal River Valley are physical rather that institutional in nature. These include the long distances and low population densities along the SRV, which, in addition to high fuel costs, make transportation very expensive. The local urban markets in the SRV are also fairly thin because of the sparce population.

A. Finance. This was mentioned by the overwhelming majority of people interviewed. Many claimed that finance was the only constraint of consequence. Of course, this is a constraint faced by all firms in all countries. In Senegal, though, capital is truly a scarce resource.

1. Credit to the Private Sector. The private sector throughout Senegal faces particular difficulties in light of the country's financial adjustment and banking crisis.

The GOS is working on a long-term strategy to strengthen the financial position of the banking system, which is facing serious liquidity problems because of many nonperforming loans. The reform of the commercial banks in trouble will, in the long run, make them more able financial intermediaries. In the short run, however, the reform measures accentuate the tightening of credit creation, which seems to be constraining the development of private enterprises. The range of maturities of available finance to the private sector is also a problem: long term finance is relatively rare.

2. Credit in the Senegal River Valley. The Caisse Nationale de Credit Agricole du Senegal (CNCAS), or Credit Agricole, as it is more commonly known, replaced SAED in 1987 as the source of credit in the SRV. Credit Agricole provides crop credit and equipment credits for farmers organized into GIEs, Sections Villageoises, and occasionally individuals.

Of the total amount of credit needed by these groups as stated in the application form, Credit Agricole supplies 80 percent, if approved. The remaining 20 percent must be self-financed. The Credit Agricole does not give cash directly to the farmers. Rather, it gives certificates to the suppliers of inputs, equipment and services, which are then redeemed by the suppliers at Credit Agricole.

In its first year of operation, it granted FCFA 791 million in loans. At the time of the field visit in May 1989, 999 million had been granted thus far. (See Table II). The reimbursement rate has been close to 100 percent. Although most complain about what are perceived as high rates of interest and a high self-financing requirement, the management of Credit Agricole is given high marks for efficiency and hard work.

The problems that have arisen are usually outside the control of the managment in Saint Louis: the slow pace of SAED approvals for credit given by Credit Agricole on the SAED perimeters, and the slow pace of those credit requests that pass a certain threshold and therefore have to be sent to Dakar for approval.

In what it does, Credit Agricole seems perform well thus far. However, there are still important gaps in the financing in the Senegal River Valley. First, credit from Credit Agicole is short term. This is suitable for small scale farming, but difficult for the small and medium sized agro-industrial enterprises who need to amortize some start up costs over several years. And because of current banking difficulties, small and medium enterprises find it virtually impossible to receive commerical bank credit.

A review of means of providing additional finance such as seed capital and intermediate financing for small and medium scale enterprises in the SRV should be undertaken. If this is found to lie outside of Credit Agricole's optimal sphere of operation (which it probably is), discussions could be held with foreign donors to explore the creation of a private sector financial entity that can provide venture capital to emerging private sector firms in the SRV.

B. Land. Though cited less frequently than finance as a constraint by those interviewed, the complex land tenure and land allocation system is clearly an institutional constraint, particularly for prospective large-scale private planters who otherwise have the means to develop land independently of SAED.
With the completion of the two dams, there has been a rush to acquire irrigable land. The most attractive land is that in the Delta, especially in the areas such as Ross Bethio now protected from saline incursions by the Diama dam.

An indication of the demand for land was obtained during my field trip to Ross-Bethio. The files of the Communaute Rural indicated

TABLE II

Loans by Credit Agricole in Senegal River Valley for 1988/89

(As of April 1989)

FCFA

Type of Credit	Amount
--Crop credit, rice & tomatoes	704,889,585
--Fishing Equipment	76,106,566
--Livestock	20,660,400
--Rural commerce	8,553,000
--Agricultural Equipment	177,362,255
--Working Capital	11,500,000
TOTAL	999,071,806

Source: Credit Agricole

that approximately 360 requests for land were awaiting the decision for allocation. A random sample of 75 of the 360 requests indicated the following percentage breakdown of land request by size:

Not specified:	15 percent
Less than 10 hectares:	20 percent
10-49 hectares:	32 percent
50-99 hectares:	17 percent
100+ hectares:	16 percent

The land is allocated for use (not ownership), free of rent or other charges. With the construction of the dams, the possibility of irrigated production, and attractive prices for paddy (85 FCFA) land clearly has a value, especially land near the main canals and waterways such as the Lampsar and Goram.

Formerly, SAED had the power to assign land to households for use. About two years ago this was replaced by the current system where the valley is now under the control of the Communautes Rurales. This was done to help local farmers participate in the development of the Senegal River Valley.

In 1988, the CR of Ross-Bethio undertook, with the assistance of technicians from the Cellule Apres-Barrages, an evaluation of the land which had been allocated by SAED. Their goal was to take back land which had not yet been developed. Overall, the CR took back a total of 14,000 hectares, or about 60 percent of what SAED had allocated.

The new system is experiencing some difficulties. As indicated above, the Communautes Rurales are being asked to decide on a growing volume of requests for land. Increasingly, the requests present modern project ideas which the more traditionally minded members of the CRs may have difficulty judging on strict technical merit.

According to Peter Bloch, a land tenure specialist who has studied the system in the SRV, the Communautes Ruraux have thus far been controlled by members of the traditional elites. Land allocation practices have tended to continue their control rather than distribute land more widely to traditionally landless elements of the population.

From the point of view of the development of a private agro-industrial sector in the Senegal River Valley, the present land tenure system is a definite institutional constraint. Land cannot be mortgaged to finance investment or the acquisition of more land,

and purchases, sales and leases are prohibited. There is no mechanism to transfer land from one person to another.

The development of modern land markets will obviously take time. Measures that the Government of Senegal may wish to consider in the meantime include:

--Developing a cost-effective system of land registration. An initial step would include the standardized recording and mapping of allotments by the Communaute Rural.

--Developing means to facilitate land transfers under the current laws.

--Developing leases under present laws.

C. Continued Presence of SAED. In spite of SAED's official policy of desengagement, SAED still plays a major role in the economy of the Valley. By doing so, it is keeping certain private sector agents from assuming roles that they are doubtless better equipped to undertake.

Subject to the completion of a pricing formula under new rice policy, the privatization of the two SAED rice mills should be quickly concluded. The Delta 2000 mill shows clearly that the private sector can assume this role in the commercialization of rice, and probably do it better than SAED. One example indicates how the private sector is better able to respond to consumer demands. Many Senegalese consumers do not like SAED milled rice because it does not separate the milled rice by size (short, medium, long.) Doing so at home requires time which could be better spent on other tasks. In response to consumer demands, however, Delta 2000 has started to make this separation.

Similarly, the sale of the large SAED workshop in Ross-Bethio should be quickly completed. There is a need for tractors and other farm equipment in the Valley, and private sector agents willing and able to purchase the SAED inventory and employ it productively. In the meantime SAED's role as the monopoly purchaser of rice should be eliminated, and the activities of the small rice decorticatiors made officially legal. The possibilities of contracting out for maintenance services for the principal canals, waterways and pumping stations needs to be explored.

The privatization of the two rice mills, though, will be the signal event in SAED's "desengagement." These two mills are fairly high profile activities, and, given the present pricing structure, fairly profitable for SAED.

Their sale, however, will throw some key rice policy questions into sharp relief. The present profitability of the mills depends on the CPSP's ex-mill price of 178 FCFA. Obviously, the key question in the mind of any prospective buyer for the mills is the future course of this price. This raises the question of the future course of rice policy.

As discussed in the following section, the complexities that the further privatization of SAED will introduce can, of course, be used as an excuse to maintain the status quo. More helpful for the development of the private sector in the Senegal River Valley is to use privatization as a tool to focus on key rice policy issues that will benefit not only the private sector in the SRV, but also the rest of Senegal.

D. The Future of Rice Policy. Irrigation is opening up new agricultural possibilities, but for the medium term the production and marketing of rice will be the dominant commercial activity in the SRV. Indeed, at the current price of 85 FCFA per kilo, rice is very attractive, especially for larger scale private planters setting up in the Delta.

It would be one matter if the GOS were privatizing an activity in which the country had a comparative advantage, which had developed without input subsidies and a subsidized output price. Privatization would under such circumstances would be much more straightforward.

As the preceding sections have indicated, this is not the case with rice in the Senegal River Valley. If the market for rice were completely liberalized overnight, rice production in the Senegal River Valley would face severe difficulties.

The price structure of SRV produced rice and imported rice shows why this would be the case (see Table III). The official SAED purchase price is 85 FCFA per kilo of paddy. The conversion ratio of paddy to finished rice is about 0.67. After processing the paddy in its two mills, SAED sells the rice to the CPSP for 178 FCFA. (This price, of course, does not reflect a host of subsidies and indirect costs associated with SAED's operations and irrigation.)

The CPSP then sells the milled rice to wholesalers for 120 FCFA a kilo, absorbing a loss of over 50 FCFA in the process. (Wholesalers sell it to retailers for 127 FCFA per kilo, who in turn sell it at the fixed consumer price of 132 FCFA per kilo.) The CPSP is able to subsidize the SAED rice because at the same time it is importing rice at about 80-90 FCFA CIF Dakar and selling the rice to the wholesalers at the same 120 FCFA. Since import volume is considerably larger than SAED production, the CPSP realizes a net surplus on rice operations.

If the rice market were liberalized tomorrow, the floor price of

TABLE III

Price Structure of Rice in Senegal

FCFA per Kilo

Year	Average CIF Dakar	Official SAED Price Paddy	CPSP Price to SAED	CPSP Price to Wholesalers	Retail Price Dakar
1981	81	47	109	75	80
1982	81	52	117	97	105
1983	87	60	129	120	113
1984	97	66	138	120	130
1985	80	85	138	148	160
1986	43	85	150	148	160
1987	40	85	179	148	132
1988	85	85	179	120	132

Source: CPSP

85 FCFA per kilo of paddy would have to fall drastically for valley rice to compete with imported rice at 127 per kilo wholesale, not to speak of competing with a CIF Dakar price of 80-90 FCFA per kilo.

Obviously, the GOS is not going to let this happen, nor should it. Whether good or bad investments, the costs associated with the two dams and much of the irrigation infrastructure are now "sunk" costs. There are indications that the 85 FCFA a kilo is very attractive--so much so that this price can come down in real terms and still provide an incentive to produce. Increasing volumes of rice produced by large scale planters can realize important economies of scale. Needed inputs, equipment and services can be supplied efficiently by the private sector. Greater savings can be realized from milling operations--through higher conversion ratios, higher capacity utilization, less use of electricity, and reduction in current overstaffing.

These reductions in cost and improvements in efficiency will either make SRV rice competitive with imported rice, or (more likely) make it more competitive with SRV rice currently grown, but not as competitive as imported rice. The GOS would then probably want to determine the price at which the most efficient producers can produce and set this as the level to which imported rice is taxed.

If correct, this scenario implies that rice cannot be completely liberalized in the forseeable future. In and of itself, this is not necessarily bad. The implicit assumption underlying the above is that the imported rice price is the true benchmark of competitiveness, the shadow price at which the efficiency of local production should be evaluated.

However, the CIF Dakar price for rice suffers from some flaws as such a benchmark. In the first place, the FCFA is currently overvalued by about 40 percent. This has the effect of making imports artifically less expensive. The world market for rice is also something of a marginal market. The price of rice from exporting countries often embodies economic distortions. There is also the related upside risk of unforseen price increases.

Thus, rice production in the Senegal River Valley should continue to have an important role to play. The challenge facing the private sector and privatization is to make SRV rice more productive and efficient, while the challenge of rice policy is to establish a flexible framework for the 1990s to make this possible.

E. Miscellaneous Constraints. Several additional factors were cited in interviews with the private sector. Even though many qualify for exemptions from taxes and import duties, the cost of inputs is still high. The cost of electricity is about five times higher that in France. In part this is a reflection of the high taxes on imported fuel. The high price for fuel also accounts for high transportation costs, although the long distances in the SRV are also a factor.

One curious finding concerned rail transportation to Kidira and Bakel. Standing near the end of the SRV, Bakel suffers from "enclavement." While a railroad station lies only one hour away by road in Kidira, this is at present underutilized. Conversations with commercants revealed that it was less expensive to use trucks (at a cost of 12 FCFA per kilo from Dakar) than train transport (14-20 FCFA per kilo.) Given the distances involved, train transportation should be less expensive.

VI. Proposals for an Action Plan

The principal conclusions of this report are presented in the form of a proposed plan of action for the Government of Senegal.

I. Privatization of SAED. The private sector is willing and able to play a key role in the Senegal River Valley (SRV), but the continued presence of SAED and the perceived slow pace of privatization constrains the growth of the private sector. The GOS recognizes the importance of quickly privatizing as many activites of SAED as feasible. In addition to reducing budgetary charges, and improving Senegal's competitiveness in producing rice, privatization will open up new direct and indirect opportunities for the private sector. In view of the importance the GOS attaches to privatization, it will:

a. Complete the sale of the Ross Bethio garage and workshop by June 30, 1989.

b. SAED will reduce its work force by at least 100 employees by June 30, 1989.

c. Complete effective transfer to private sector of the Ross Bethio and Richard Toll rice mills by June 1990.

d. Concurrently with sale of rice mills, SAED will relinquish its role in purchasing paddy.

e. SAED will cede seed production and commercialization to the private sector.

f. The activities of small diesel decorticators will explicitly be made legal.

g. For the upkeep of the large waterways, canals and pumping ...ons critical to irrigation, outright divestment would be difficult. However, SAED will develop a plan to contract out such upkeep to the private sector by June 30, 1989, with a view to signing such contracts by December 31, 1989. Upkeep on smaller perimeters can be turned over to the village groups.

II. Rice Policy. The GOS realizes that rice production and marketing will continue to be the dominant economic activity in the Senegal River Valley, around which the emerging private sector is developing. While rice policy has implications beyond the Senegal River Valley, a definition of rice policy, especially after the privatization of SAED, is needed so that the private sector may make business plans and investments accordingly.

Therefore, the GOS will specify pricing arrangements, including ex-rice mill prices and levels and types of perequation for rice produced in the SRV once SAED is privatized.

III. Similarly, the GOS will announce action plans to improve the competitiveness of tomato and sugar production in the SRV through gradual reduction in protection over a 3 year period, primarily by reducing the real cost of these products in order to improve efficiency.

IV. Land tenure in the Senegal River valley is an important and complex issue. Land tenure policy needs to recognize that the modern private agriculture, through which many of the goals of the New Agricultural Policy will be realized, is substantially different from traditional agriculture. The legal and institution structure should facilitate the efforts of commercial farmers who invest in land development, equipment and inputs.

With the availability of water for irrigated production, land has become more valuable and a growing demand for land, especially in the Delta region, is being increasingly felt. Issues which the GOS will review with a view to accomodating the farmers in the SRV include:

--Developing a cost-effective system of land registration. An initial step would include the standardized recording and mapping of allotments by the Communaute Rural.

--Developing means to facilitate land transfers under the current laws.

--Developing means to lease land under current laws

V. Credit. Finance is the most pressing constraint facing both the traditional and emerging private sector in the SRV. In part this is a reflection of the true scarcity value of capital, but it is also a result of the current banking crisis which the GOS is addressing at a national level. The Caisse Nationale du Credit Agricole du Senegal appears to be functioning reasonably well, and current management in Saint Louis enjoys respect in the SRV.

As the Credit Agricole develops over the next several years, additional steps commensurate with its importance in providing finance appear warranted. The GOS will therefore prepare an action plan specifically for the Credit Agricole to address the following areas:

--Streamlining some of the approval process, including elimination of SAED review for farmers on SAED perimeters.

--Increase the ceiling level for approvals from Dakar, and improve speed of review from Dakar.

--Review ways of providing additional finance such as seed capital and intermediate financing to prospective small and medium scale enterprises. If this is found to lie outside of Credit Agricole's optimal sphere of operation, discuss with foreign donors the creation of a private sector financial entity that can provide venture capital to emerging private sector firms in the SRV.

--Determine feasibility of increasing private sector participation through partial ownership in Credit Agricole.

VI. Undertake a review of railroad transportation tariffs, especially for the Dakar-Kidira segment, with a view to lowering such tariffs if warranted to help integrate Bakel more fully into the economy.

Persons Interviewed

Personnes Interogees

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This report also obviously draws on a number of previous publications and documents related to the Senegal River Valley. The background section on the Senegale economy draws on the IMF, World Bank, Lubell, and Kanoun (see "References" above for complete citation.) The section on rice in the Senegal River Valley and rice marketing draws on Craven, Tuluy, and Morris. The section on land tenure problems draws on Bloch.

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Statement of Work

(A) Background

The Senegal River Valley is entering an era of potential economic growth as a consequence of completion of the Manantali Dam and the resulting possibilities of expansion of irrigated agriculture and agriculture-related activities.

On the Senegal side of the river, the functions of SAED, the regional development agency hitherto responsible for supplying inputs and marketing outputs of much of the region's agricultural production, are now being reduced, leaving room for expansion of the private sector into those functions and into new activities that growth will generate.

Among the functions being relinquished by SAED are the supply of inputs, construction and earth moving works, the maintenance of machinery and equipment, and the process and marketing of agricultural output. These functions and the new actives that will be generated by economic growth should stimulate small and medium scale enterprises. The institutional constraints that hamper such an evolution need to be identified for drafting a GOS action plan for the promotion of private sector enterprise activity in the region.

(B) Scope of Work

The Contractor will prepare a report and a draft action plan on "Promotion of Private Sector Enterprise in the Senegal River Valley." The report will focus on agriculture related private sector enterprise activity. It will describe the present situation of private sector enterprises in the Senegal River Valley and will identify the constraints limiting the growth of agriculture related private sector activity in the region. The report will specifically identify restrictive government interventions whose removal would promote expansion of the private sector, as well as the positive steps that can be taken, e.g. in the field of credit to promote private sector activity.

The contractor will take acocunt of existing studies on private sector marketing and private sector production and services in the Senegal River Valley and will carry out field interviews in the region.