AN OUTLINE OF RURAL INVESTMENT CREDIT IN THE LOWER CASAMANCE PROJECT, SENEGAL

Background and Recommendations.

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Contract.

Dakar, March 24, 1980

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INTRODUCTION

Following summary briefing in AID/W and an interview with the IBRD's agricultural specialist responsible for the Sedhiou project, the Consultant arrived in Dakar on February 29. As part of his briefing by AID/Senegal, the Consultant was given a copy of the Mission's telegram 5508 of July 24, 1979 (Annex C) setting forth the detailed terms of reference of the consultancy. Despite a long search, this telegram could not be located in Washington; hence, neither Ohio State University nor the Consultant had an opportunity to study the terms of reference prior to the latter's acceptance of the assignment for a period NTE 30 days.

Given the time frame, coupled with the Consultant's unfamiliarity with Senegal - and indeed with Africa - this report may fall somewhat short of the Mission's expectations as reflected in the abovementioned scope of work, in particular as regards detailed recommendations concerning paragraphs D and E of the telegram: the quantity of additional credit needs and the credit administration structures for the Casamance project. Hence, if the Mission feels that additional recommendations of this nature are required prior to an initial disbursement of funds for the credit activity(or that a study in greater depth and breadth of the national farm credit situation is desired), it is suggested that longer-term arrangements be made for additional advisory services, especially in view of the fact that the three person/years of TA contemplated for this field in the PP have reportedly been dropped from the TA plan.

The initial twelve days, February 29 to March 12, were devoted to study of the background documentation listed in Annex A 1/, consulting the persons listed in Annex B and visiting the Project area (March 6 to March 10). An intensive visit was made to the "encadré" village of Fanghotte in the arrondissement de Niaguis and to a not yet "encadré" neighboring village. March 13 to 20 was devoted to drafting the report and filling information gaps. Typing of the final manuscript in the AID Mission was begun on March 18 and terminated on March 24. The full report was presented to the Mission on March 24. The summary and conclusions were presented on March 21, and a meeting was held on March 24.

The Consultant wishes to acknowledge gratefully the friendly and courteous cooperation received from the AID Mission - especially . Donald Brown, Daniel Lamendola and Tom Odell Office - as well as from Senegalese officials in Dakar and in the field.

1/ The numbers appearing underlined in parentheses in the text refer to the numbering of the documentation in this appendix.

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The first part of the report deals with the overall issues of credit and interest rates in the context of the country's internal and external economy and tight current financial situation. While this analysis may provide the Mission and the GOS with some basis for future decisions regarding credit and interest rate policies in general, it is meant essentially to establish a framework for relatively short-term decision making at the modest level of the lower Casamance project. The second part discusses the Consultant's findings concerning institutional arrangements at the Project level and suggestions for credit priorities and procedures in relation to certain technical, economic and social considerations. The Consultant wishes to underline his conviction that Project implementation will benefit greatly from continuous reference to the truly excellent analyses (technical, economic and social) annexed to the Project Paper. He recommends that a French translation of these annexes be made available to Senegalese project personnel without delay and made required reading for them at all levels. (It is also hoped that these analyses are reflected in the appropriate volumes of the Plan Directeur for the Casamance published subsequent to signature of the Grant Agreement).

The Consultant repeatedly sought to obtain an interview with Mr. Oumar Touré, Director of SOMIVAC, but it was apparently impossible for Mr. Touré to fit such an interview into his schedule.

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SUMMARY AND CONCLUSIONS

At the beginning of 1980, Senegal faced a critical economic situation, characterized by a static GDP, rapid inflation of prices, money supply and credit, and serious balance of payments and government finance problems.

A succession of poor rainfall years has been largely responsible for this situation. Specifically, adverse weather conditions have sharply reduced export earnings from peanuts, at the same time necessitating larger imports of foodgrains, self-sufficiency in which is not in sight. One dramatic result of the disastrous crops has been an enormous accumulation of rural indebtedness on account of government production credit. The official response has been to declare substantial rollovers of the outstanding debts, to be repaid each time during the succeeding three years. It is doubtful that the country's peasants will ever be able to repay the accumulated arrears. In February 1980, these arrears exceeded five billion CFA, to which must be added an equal amount of outstanding loans from the 1979/1980 crop year, about half of which will also appear as arrears to be rolled over.

Despite a cumulative surplus (including export taxes) to the government from peanut oil exports of over 55 billion CFA from 1973/1974 to 1977/1978, several billion CFA are presently owed to the banking system to reimburse it for the uncollected advances for farm production supply credit made to ONCAD. One of the results is that the BNDS has temporarily closed its loan windows for all operations except those declared to be of high public priority. Total outstanding advances to the agricultural production-purchasing-processing-storage-exporting chain in February amounted to about 60 billion CFA, mostly on peanut account.

As part of a fiscal austerity program, initiated in late 1978 and still being refined in collaboration with IMF and IBRD, all remaining subsidies on agricultural supplies except fertilizers were abolished for the 1980/1981 crop year. However, fertilizers continue to be heavily subsidized. The total cost to the government of the supply subsidies was 23.5 billion CFA from 1973/1974 to 1977/1978.

ONCAD's supply and financial management, credit program and "cooperatives" development program is being heavily criticized at this time and complete reorganisation and refocusing of these activities and structures appear to be impending.

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The interest rate structure is determined by the West African Monetary Union. Maximum bank lending rates of 13 percent and a preferential BCEAO discount rate of 5.5 percent (and a normal rate of 8.0 percent) can still be maintained because only about 10 percent of the Union's present monetary resources are from foreign credits, and these have been provided essentially by French banks at about 13 percent interest. If and when the Union's reliance on external borrowing increases (in part thanks to Senegal's - in addition to some other members'- overdraft position), the rate structure may have to be adjusted. Loans made from preferentially discounted funds may be made at maximum interest rates of 8.5 percent, but the GOS has in effect a ceiling of 6.5 percent on ONCAD's"cooperative" production loans. (No interest is charged on the rollover debts). Some other agricultural loans are made at 7.5 percent, notably those in the middle Casamance made under the IBRD-supported Sedhiou project.

On the other hand, the Union establishes minimum interest rates for time and savings deposits that range from 3.25 percent to 6.5 percent, depending on the balance and length of time. Senegalese banks at present pay 10 percent or more for prime deposits. Time deposits have been rising faster than sight deposits in the last few years.

At the farm producer level, the interest rate is unknown and therefore not a variable that influences producer decisions. This is so because agricultural supplies are provided in kind by, and debts are almost paid in kind to, one and the same government agency. Producers, however, are aware of, and respond to, changes in prices of inputs and outputs. The single exception is seed, which is reimbursed in kind at 25 percent interest.

Assuming all debts had indeed been collected, the difference between what the Government would have collected in 1973/1974 to 1977/1978 from interest on farm supply credit at the maximum permissible WAMU rate of 8.5 percent and what it would have collected at 6.5 percent (234 million CFA or about US$one million) is dwarfed by the magnitudes of the overall financial revenues and outlays such as supply subsidies and peanut export earnings.

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Agriculture's internal "terms of trade" are obviously worsening. While the African urban family's cost of living index rose 165 percent from 1970 to the end of 1979, prices of the principal farm products have been raised from zero to 33 percent during the decade.

There seems to be no reason not to proceed with the implementation of the AID-funded special credit program in the lower Casamance development project. Indeed, conditions seem to be favorable, inasmuch as most farm credit in the area is already the responsibility of the special implementing agency, PIDAC, which combines a new small-scale approach to village level organisation and joint credit responsibility with intensive technical assistance. PIDAC has the appropriate structure and has accumulated considerable experience, prestige and knowledge of the felt needs to be financed through the special credit program.

The allocation of US$1.25 million for the special credit program appears reasonable to test the market, as it were. It represents an average of about $5,000 for each of the villages presently included (encadrés) in PIDAC's programs. The program responds to a felt need, both at the village and development agency level because, even though simple farm equipment is presently made available with medium term credit, there is at present no credit available for financing the acquisition for community or multi-family use of motorized equipment and fixed investments. The purposes for which the Project Paper stipulates the use of the special credit program are considered pertinent, except that is is suggested that housing materials and medicines be dropped from the approved list.

It is recommended that investment applications from villages be screened carefully for economic rationale(in addition to financial viability). The investments should respond to one or more of the following criteria: higher labor productivity during the planting season where labor availability is a constraint at that time; freeing of low-productivity labor for higher return activities throughout the year (e.g., hand pounding of paddy rice vs. vegetable gardening and rice transplanting); more intensive land use where land availability is a constraint (irrigation, water management, crop diversification including tree plantations); non-agricultural service creation, in conjunction with training, especially in the maintenance and servicing of the equipment to be provided by the program (blacksmithing; carpentry, mechanics); simple primary processing that increases added value (palm oil pressing, palm kernel crushing).

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The principal institutional and financial recommendations for program implementation are the following:

- Interest rate to be set at the preferential discount rate plus two points (currently 7.5 percent), in accordance with the IBRD-funded program in the neighboring Sedhiou project.

- Loan term normally limited to five years except for fixed investments.

- No granting of collective rollover privileges; refinancing to be considered only exceptionally, on a case-by-case basis, and at full interest.

- Establishment of a depreciation-saving fund for each investment, to be financed at the village level through collection of user fees; interest will be paid at the going rate for such time deposits.

- The credit program will be administered by PIDAC, which will be responsible for loan approval, materials procurement and collections. A local bank will be financial agent and - if possible - will waive banking fees in return for maintenance of a minimum balance in PIDAC's account.

- All of PIDAC's operating costs will be financed from its government budget allocation for operating expenses.

- Strict supervision will be excercised by PIDAC over maintenance and repair of equipment supplied, and appropriate assistance will be provided.

- Duplicate and certified sets of loan account forms will be maintained by PIDAC and the borrower group.

A few collateral recommendations are made, designed to enhance the effectiveness of the credit program, principally:

- Caution on rice-related investments if rice continues to be exclusively a subsistence crop.

- Consideration and study of "unconventional" alternatives for saline lands, such as pisciculture and controlled mangrove harvesting.

- Establishment of a farm equipment and machinery research facility in the area.

- Study of marketing,processing and transportation problems in relation to the area's potential as a fruit and vegetable supplier, with special emphasis on coastal transportation between Ziguinchor and Dakar.

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I. THE SENEGALESE ECONOMY IN EARLY 1980.

A succession of years of "abnormally" low peanut and food production owing to relatively low and/or unsatisfactorily spaced rainfall has brought economic growth to a halt. At the beginning of 1980, the Senegalese economy was characterized by sharp inflation, serious balance of payments and public finance problems and accelerated migration of peasants from the country to the towns.

The annual rate of economic growth for 1960-1974 is estimated by one source (3) at 0.7 percent; another source (6) estimates the growth of real GDP between 1970 and 1979 at 20 percent, i.e., a compound annual rate of only 2.3 percent. The latter rate is either just equal to, or less than, the current rate of population growth, depending on the data source (4), (3).

The cost of living index for an African family in Dakar rose 165 percent from the 1970 average to the end of 1979.
Urban minimum wages were raised sharply in November 1974, by 111.5 percent over their 1970 level.
Since then, they have remained unchanged. Assuming that the trend of actual wages paid reflects these official minimums, it appears that real wages for urban laborers with steady employment have declined by nearly 40 percent from 1970 to the end of 1979. 1/

Despite nominal controls, urban food prices have been rising substantially faster than those of other necessities: on a 1967 base, the food price index for an African family stood at 306 in August 1979, as against only 222.5 for clothing, for example, and a general index of 245. (7).

Urban food and other prices, even according to official statistics, have risen much more sharply than official farm gate prices for the main crops; peanut prices have been raised by only 10 percent since 1974:

Selected Price Changes (Percent)

	1979/1978	1979/1974
Farmgate:		
Peanuts	9.6	9.6
Cotton	10.2	14.9

1/ The official statistics probably understate the actual decline in real wages. The price index is based in part on nominally, but not really, controlled prices, while the minimum wage index applies by law only to a privileged minority of workers in large, controllable establishments.

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Corn	0.0	0.0
Millet	0.0	33.0
Rice	0.0	0.0
CPI food a/	11.7	85.2

a/1979 index refers to August; 1974 and 1978 indexes are yearly averages.

Source: (3) and (7)

Because there is no overall deflator, and perhaps also for political reasons, there are no official GDP data at constant prices. At current prices, agricultural 1/ GDP increased 142 percent from 1970 to 1978 (latest year published), compared with only 91 percent for overall domestic output. Since farm prices have lagged considerably behind other prices, the agricultural sector appears to have been a great deal more dynamic during those years than the rest of the economy, even in the face of adverse weather.
But agricultural GDP at current prices dropped 16 percent in 1978, and in 1979 was still below the 1976/1977 average.

Between 1973 and 1977, the value of basic food imports at current prices fluctuated between 19 billion and 32 billion CFA, equivalent to US$76 million to $128 million. They represented between 20 percent and 32 percent of total imports in those years. (3). In 1978, imports of basic foods rose to the equivalent of US$203 million; this was 26 percent of a record import value of US$785 million. 2/ As the export value of peanut oil as well as of phosphates, and cake,$97 million dropped to record loans for recent years in 1978, total export value declined to $405 million.

The trade gap was mitigated in part because Senegal was able to export $140 million of foodstuffs other than peanut oil. Aside from $63 million of fisheries products, these exports reportedly consisted mostly of fruit and vegetables; the figures - twice the 1976/1977 average - seem to demonstrate a substantial capacity for agricultural export diversification in the face of drought. Despite considerable foreign excahnge receipts from "invisibles" such as tourism and capital transfers, Senegal finished the year with a net deficit of $71 million in its foreign payments, more than five times the average deficit during the previous two years.

1/ Including forestry, hunting and fishing.

2/ Imports of consumer goods amounted to $145 million, or approximately the same as each of the remaining three import categories (raw materials, capital goods and "miscellaneous"). Since there is no evidence that the rural population can or does purchase imported consumer goods, it may be assumed that these imports were exclusively for the benefit of the small number of upper income urban consumers, whose standard of living is enormously higher than that of the remaining 99 percent of the population.

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In 1979, commodity exports dropped further, to an estimated $544 million (peanut oil and cake exports were only $202 million), while imports declined only $50 million, to $739 million.
However, receipts from services - principally tourism - and transfers on current account rose to $223 million. This, plus $41 million of private foreign lending and $108 million in drawdowns of official external loans resulted barely in bringing the country's foreign payments into balance in 1979.
In early 1980, the nation found itself with an accumulated overdraft of about $200 million in its external accounts with the French central banking system, an external debt of $576 million, and a debt service ratio beginning to exceed 20 percent of export earnings.
Only the fact that the West African Monetary Union as a whole still shows a positive international balance has saved Senegal from becoming an international financial basket case.
This situation and its concomitants, including above all a too rapidly expanding money supply (see below), led to the adoption of a relatively stringent financial austerity program beginning in late 1978. Further measures were concerted with the IMF in 1979, leading, it is hoped, to a substantial infusion of external monetary resources by mid-1980 by the IMF, the IBRD and private banks. Austerity has already meant a reduction of new foreign borrowing, to only $9 million in 1979, and a money supply expansion ceiling for 1980 of no more than 1.8 percent, i.e., only a small fraction of the probable rate of inflation.

II. THE MONEY SUPPLY AND CREDIT.

On September 30, 1979, Senegal's money supply (M1, i.e., excluding time and savings deposits) stood at 134.7 billion CFA, equivalent to US$662.1 million at the average 1979 exchange rate of 214. 1/ This was a 31 percent increase over a year earlier, against a rise of only four percent from 1977 to 1978, and 17 percent and 29 percent, respectively during the two previous years. 2/ M2, the money supply measure that includes time and savings deposits, stood at 171.1 billion CFA (nearly US$800 million); it had gone up only 22 percent form September 1978, but it rose faster than M1 in the previous years. In fact, M2 shows a cumulative increase of 116 percent from 1975 to 1979, against only 95 percent for M1.

1/Unless otherwise indicated, all conversions to US$ are made at this rate.

2/September is said to be a more significant month for the purpose of measuring the money and banking situation because it precedes the sizeable seasonal credit expansion for the new peanut year; in fact, M1 was 17 percent larger in December 1978 than in September. The peak tends to occur in March, after which it drops through September.

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Total credit outstanding to the "private" sector (which includes autonomous public and semi-public agencies) in September 1978, was 167.9 billion CFA (US$785 million), a 35 percent increase over the same date in 1976. It jumped an additional 40 percent from 1978 to 1979. (Data for September 1979 are the latest available).
Central Government borrowing had been exceedingly modest through 1975. In September 1976, however, Government borrowing had risen to 9.8 billion CFA, 25 times the credit outstanding a year earlier. In September 1979, Government borrowing stood at 18.4 billion CFA, almost double the 1976 level. Of this, 14.5 billion had been borrowed from commercial banks; the remaining 3.9 billion were discounted in the Central Bank.

The credit expansion naturally led to a sharp increase in bank deposits. Demand deposits rose 54 percent from September 1976 to September 1979. Time and savings deposits rose even faster; they nearly doubled over the three years. This latter phenomenon is said to reflect a rise in allowable interest rates conceded by the BCEAO in 1975. However, as in most other countries, the bulk of the non-demand deposits - as well as of their increase over time - belong to commercial firms and well-to-do individuals. In June 1978, only 1.5 billion, or five percent of the total, was in savings bank deposits, and these had increased only 64 percent since June 1975.

The bulk of outstanding bank credit continued to be in short-term loans (78 percent in September 1978). Medium and long-term[1] credit rose much faster than short-term loans (91 percent versus 24 percent) from 1976 to 1978, but they rose at the same rate from March 1978 to March, 1979.
Of the total short-term credit outstanding in September, 1978, 46 percent was owed by public or semi-public enterprises. The proportion rose to 59 percent in March 1979, reflecting the peak crop season demand. Public enterprises participate to a lesser degree in medium and long term credit (25 to 30 percent, depending on the season). This is, of course for the most part a reflection of the enormous requirements of credit by the complex of public agencies involved with the financing of the planting, purchasing, processing and exporting of peanuts and peanut oil, and to a somewhat smaller degree in the financing of planting, purchasing and storage of grains.

1/ Long-term credit represents only about four percent of the total of medium and long-term.

That the sum of all line items of short-term credit outstanding related to these activities in the official list of 40 different economic activities (7, p.10, lines 9,11,12,18,29,31 and 38)[1/] is approximately equal to total credit outstanding to public and semi-public agencies is probably not a coincidence. 2/

1/ See also (3), p. 13

2/ Except where specifically indicated, all data in the preceding section were obtained or computed from (7), (8a), (14) and private bank sources.

Currently, about 65 percent of the total credit supply is produced by bank deposits (pace the reciprocal causation mentioned earlier); the remaining 35 percent is provided by rediscounts of the West African Central Bank (BCEAO).
External credits, while marginally crucial at this time, as indicated earlier, currently supply only about 10 percent of this overall liquidity. The bulk of the private external lending is provided by French banks.

III. FARM CREDIT, "SUBSIDIES", AND CURRENT INCOME TRANSFERS.

No Senegalese public agency specializes in the granting of farm production credit. The agency that dispenses the bulk of such credit (ONCAD) is simultaneously responsible for purchasing and transporting farm inputs(except motorized equipment), purchasing and storing peanuts (and at times certain grains), and selling them to the processing plants. This involves an extremely complex system of internal and external accounting, including at least three other public agencies (FMDR, BNDS and CPSP). The accounting system would present a formidable challenge even for a more highly developed bureaucracy. In Senegal, it is reportedly so snarled that it has become virtually impossible to know at any time who owes what to whom, even though there are supposedly periodic mutual compensation transactions. Hence, it would be completely futile to attempt to calculate costs and returns in the farm production credit portion of the chain.
It must also be borne in mind that farm production credit *per se* represents a very small proportion of total credit outstanding at any one time to what might be called the agri-business sector. On March 31, 1978, i.e., at the peak credit requirement point, total outstanding credit for "agricultural production" and "cooperatives and mutual" amounted to only about four billion CFA, equivalent to 15 Percent of the total "agriculture" credit including crop purchases, and only six percent of all agri-business credit including processing and export of agricultural products. (3, p.13).

This must not be interpreted as reflecting a"rationing" of credit to small farmers. Discussions at various levels indicate that the system responds to all reasonable demands from the field (as screened by local officials). The true credit supply limitations consist only of withholding of credit for reasons of willful delinquency and of bottlenecks in the transportation and distribution of the physical inputs. In other words, the current level of small farm production credit in Senegal is essentially determined by the limitation of effective demand, rather thanof supply as in many Lat[illegible] [illegible]merican countries. Since Senegalese peasants are unaware of the interest rates applied to inputs supplied, except seed (see 4 below) it is immaterial, from their point of view, what rate of interest the Government agency bookkeepers apply to their production loans, within certain limits.
In the framework of Senegal's overall rural development strategy, moreover, the production loan interest rate occupies a very minor niche. Even before 1974, when the Government consciously redirected the flow of public resources [illegible] to agriculture and the rural areas, there were heavy subsidies. Since then, the flow of public resources to agriculture, including the (mostly externally financed) investment programs, has increased further. At the same time, however, the Government continues to rely heavily on the surplus from peanut oil exports to finance these and other expenditures. No attempt will be made here to calculate the net flow of overall resources into or out of the agricultural sector with any greater exactness than has already been attempted from the maze of data and transactions (see 3). Such data as are presented below are meant principally to put the current financial and some economic implications of the concessionary interest rate into perspective.

Perhaps the most important tool for providing production incentives for agriculture has been - and continues to be - the subsidy on the prices of inputs furnished through public agencies in the form of annual production loans. At first the prices of virtually all farm implements,draft animals and chemicals, in addition to fertilizers, were subsidized in various degrees. As late as the 1979/1980 crop year, as many as ten different articles of equipment were still on the subsidy list; one half or more of the price was subsidized for many.1/

1/ Circular letter n° 006808 of November 28, 1978 from Minister of Rural Development to Regional Governors.

Beginning in 1980/81, in accordance with the new fiscal austerity program, only fertilizers and one herbicide remained on the subsidy list. All fertilizers - regardless of formula - are still being charged to peasants at a flat 25 CFA per kg (except for 10-10-20 vegetable fertilizer, which costs 40 CFA), equivalent to US$117 per MT. 1/ According to estimates by the chief of ONCAD's supply services, the prices that the Government will probably have to pay for domestically produced fertilizer in 1980 range between 60 and 70 CFA/kg, and for imported fertilizer between 45 and 170 CFA/kg, depending on formula and origin. The internal cost of transportation, ranging, for outlying areas such as Casamance, from about 3,000 CFA to about 5200 CFA per MT, is also absorbed by the Government.

1/ Circular letter n°0006 of December 27, 1979 from Minister of Rural Development.

For the peasants, the sudden abolition of subsidies on the remaining items of equipment signifies price increases ranging from a minimum of 61 percent for a peanut lifter, to a maximum of 145 percent for a large-bed ox cart. And there were no significant adjustments of farm prices in recent years (see 1 above).

According to AID mission estimates (3, Table 1), the cumulative financial cost to the Government of these supply subsidies during the five crop years 1973/1974-1977/1978 was nearly 23.5 billion CFA (ca. US$100 million). 1/
The same estimates indicate a cumulative loan "forgiveness" by the Government of 5.2 billion CFA through the 1977/1978 crop year. In fact, this represents the accumulated debt of the peasant sector outstanding at that time. In 1977, the Government, realizing that the total outstanding debts were indeed uncollectable because of a succession of poor crops, introduced a new policy for loan repayments in case of bad crop years. Under this policy, uncollected loans are not forgiven, 2/ but rather, in case of a bad crop, a certain proportion is rolled over for repayment during the succeeding three crop years; no interest is due on the rollover, which includes both short and medium-term debts. The percentages of rollover are determined region-by-region and zone-by-zone in accordance with the regional governors' estimates of crop loss below "normal". Agricultural officials are supposed to be - but are not always - consulted in this exercise. They are often not aware of what has been decided until the official percentages are announced from Dakar.

1/ Significantly, data for the 1978/1979 crop year were not yet available in March 1980.

2/ In effect, 43.5 percent of the 1977/1978 loans were forgiven, for a total of 1,4 billion CFA.

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The total debt of the agricultural cooperatives in 1978 was 3,163 million CFA. Because of bad peanut crops in many areas, the current debt was finally adjusted to 1,538 million CFA (a national average of 49 percent). The rest was to be repaid during the next three years, and the Government was to reimburse the BNDS and the private banks for the temporary shortfall (which it has not yet done).
By 1980, the total accumulated debt, including loans outstanding from the 1979/1980 crop year, stood at 10,102 million CFA (US$47 million). Of this, 5,384 million, or 53 percent, is supposedly due this year, including only 0.9 billion from last season's short-term loans. Total credit issued in 1979/1980, including medium-term loans for implements, was 2,296 million. As of February 25, only 5.8 percent of the accumulated indebtedness had been collected, equivalent to a more meaningful 18.3 percent of the total callable for this year.
Even before this new rollover system was instituted, debt collections from the peasants were very closely related to crop outcome. Comparison of debt recovery percentages with the peanut crop outcome in each of the crop years 1969/1970 to 1973/1974 (15, pp. 111, 112 and 114) shows a correlation coefficient of .92 for total production, and of .95 for average yields. The percentages of recovery ranged from a minimum of 49 percent in 1970/1971 to a maximum of 96 percent in the following year when output and average yield were 70 percent and 60 percent higher, respectively.
As of the end of February 1980, the BNDS had loans outstanding to ONCAD for a total of over 70 billion CFA (about US$330 million), composed as follows (in million CFA):

Current crop peanut purchases	15,548
Equipment and supplies purchases	28,665
Outstanding Coop. prod. loans	10,102

These funds are advanced by six private and public banks, for which BNDS acts as agent and contributes 58 percent of the resources.
All banks work with the same one-point margin and all are awaiting GOS reimbursement of uncollected balances.
The Central Bank discounts the funds advanced to the BNDS and to the other banks at the preferential rate of 5.5. percent. The BNDS charges ONCAD a rate of 6.5 percent for all operations related to the peanut crop, including production credit, purchasing and storage; ONCAD pays the BNDS a rate of 7.5 percent for funds used for purchasing other farm products and farm inputs.
Losses on cooperative credit are legally guaranteed by the FMDR which is also responsible for compensating ONCAD for the subsidies on inputs distributed. The CSPS administers the credit loss guarantees. As guarantor of the funds for peanut purchases, the CSPS is also the ultimate government agent that makes up net losses, or banks net gains, as the case may be, from the year's peanut operation.

Since farm gate prices for peanuts have always been considerably below their market price based on the export value of peanut oil, even after the 10 percent 1979/1980 increase that followed five years without a change, the CSPS has shown a consistent surplus year after year, the size of which has varied mostly in accordance with the size of the crop. In addition, the Government collects a large tax on peanut oil exports.

The Government's gross cumulative surplus from peanut oil exports during the five crop years, 1973/1974 to 1977/1978[1], including taxes collected and CSPS surplus, was 55,451 million CFA. If the cost of input subsidies is deducted from this, the Government's net cumulative surplus appears to have been 31,979 million CFA, equivalent to about US$150 million.
(Data from 3).

1/ Data for 1978/1979 were not yet available in March 1980.

III. INTEREST RATES.

Interest rates for both lending and deposits are set by the governors of the BCEAO for all member countries and are closely monitored by the Community's Central Bank. Most significantly, the BCEAO-sanctioned interest charges on loans are ceiling rates, whereas most of the rates established for deposits are floors, particularly for deposits of more than one year (see Table 1). Thus, while the banks are obliged to adhere strictly to the maximum 13 percent nominal interest ceiling currently in force (not counting fees, etc., which are said to result in a maximum effective rate of perhaps 14 percent), they are free to let the market set the interest paid on deposits anywhere above the highest floor rate of 6.5 percent. As a result, banks are currently reported to be paying as much as 10 percent on the largest, and longest-term, deposits.

Maintenance of this rate structure is made possible by the effective two-way insulation of the Senegalese money market from the direct influence of the so-called "world" money markets (e.g., London and New-York). Of the BCEAO resources placed with member banks in 1978 (227.4 billion CFA), only three percent was placed at "money market" rates; (Paris banks are said to charge 12.5 to 13 percent currently); the rest was discounted at 5.5 percent and eight percent (about 50/50) respectively. The overall weighted cost of money to the Community's banking system in 1978 was 4.86 percent; the weighted average rate of interest on loans made by member banks was 10.27 percent. The average yield of resources was 9.94 percent and the average rate of profit (yield minus cost) was a healthy 5.08 percent. (8a, p.19) Clearly, this structure can be maintained only so long as the Community's central banking system remains essentially in internal balance.

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However, if Senegal and some other partners continue to overdraw, this balance will be threatened. Growing recourse of the BCEAO to external money markets - in particular outside of France - will undoubtedly require a revision of the Community s rate structure. The alternative will be sharply curtailed liquidity and thus serious economic and political problems.

Meanwhile, the preferential discount rate paid by public agencies for commercial operations with agricultural products and inputs (5.5%) is immaterial so long as it is meant to cover the financial cost of these essential and non competitive operations, rather than to test their relative profitability. In principle, such money flows are merely intra-public sector financial transfers. Operational inefficiencies have nothing to do with the interest rate and must be corrected by other means. These considerations apply to the vast majority of the funds borrowed,by the public sector for financing the annual purchases,storage and sale of agricultural inputs and outputs, regardless of whether they concern peanuts or grains. The same preferential discount rate is available to the private sector for these same activities. Whether or not the private sector decides to participate depends on aspects of government policies that are unrelated to the financial interest rate.

Somewhat different considerations apply, at least in theory, to that portion of public agency borrowing that is channeled into farm production credit. If strict banking criteria were to be applied, the institutions concerned should at least be able to cover the cost of lending (interest paid, operating costs and losses) through the interest they charge on loans. But such criteria are meant to be applied to an essentially monetized economy and to institutions where costs and returns of farm credit operations can be readily identified, as they obviously cannot be in Senegal (see 3 above).

In the West African Monetary Union, the interest rate for small and medium-sized enterprises in the agri-business sector is fixed at a maximum of 8.5 percent, (the preferential discount rate plus three percent), with a maximum loan limit of 30 million CFA (US$140,000). The GOS has established a rate to peasant "cooperatives" of 6.5 percent, in line with its overall subsidy strategy, for bookkeeping purposes in the case of ONCAD's and the Development Corporation's loans to finance the sale of inputs of fertilizer, other chemicals, tools and equipment and draft animals. In the case of seed, which is repaid in kind, the interest rate is 25 percent. This is perhaps ironic, for seed is the only case in which the peasants are able to identify, and thus be aware of, the interest rate.

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The Senegalese farm economy is emphatically not a monetized economy. Almost all peasants are equally poor with an average per capita GDP of less than US$150 (2, p.2) and average cash returns per economically active person of less than US$50. Moreover, cash returns fluctuate enormously as a function of the rainfall patters.

For example:

Net estimated farm returns in a "good" year and a "bad" year.

	Good Year (1970)		Bad Year (1971)	
	bill. CFA	%	Billion CFA	%
In cash	32.11	50.7	17.84	48.5
In kind	31.28	49.3	18.92	51.5
Total:	63.39	100.0	36.76	100.0
Percent of total household income	33.7		21.7	

Source: (15), p. 92.

In fact, credit is never issued in cash to peasant groups, and hardly ever repaid in cash. The practically universal practice is to furnish the inputs in kind and deduct the debt at the end of the crop year from payment for crop delivery (typically in the case of peanuts for oil which are bought only by ONCAD) or accept payment in kind of grains. The only quantities the peasants are aware of are prices and the physical measures of inputs and outputs (the latter often at the mercy of less than scrupulous weighers). They do not know what rate of interest is applied to their production loans and most do not even understand the concepts of principal and interest applied to money.

Senegalese peasants do seem to be quite responsive to price changes. For example, in the Casamance region as a whole, a 63 percent increase in the purchase price for peanuts (from 25.5 to 41.5 CFA per kg)announced for the 1974/1975 crop year resulted in a 24 percent increase in peanut production between the three-year averages 1971-1972-1973/1974 and 1974/1975-1976/1977 (15, pp. 112 and 113). Under less weather-dependent conditions, one could thus postulate a relative price elasticity of .38 for the supply of peanuts in the Casamance).

According to officials in the field, the peasants also tend to lower their requests for inputs when prices are raised, such as for example in the current crop year which saw the removal of subsidies from all farm inputs except fertilizer.

IV. CONCLUSION.

It appears fairly evident that, barring a miracle, the peasants will not be able to ever get out of their growing indebtedness (see 3 above). A top-level decision on what to do about this situation is under consideration. Carrying the debt on the books as overdue accounts receivable would limit the banking system's liquidity (not to speak of the losses on interest account). Thus, a sizeable debt cancellation will probably be called for. Assuming that, say, five billion CFA are forgiven, the central government's net surplus on peanut since 1973/1974 will still have been a tidy 27 billion, without including the unknown surpluses for the last and present crop years.

These figures clearly dwarf any paper losses that one might ascribe to the highly concessionary interest rate applied to loans to cooperatives. Assuming that all loans made to cooperatives between 1973 and 1978 (11,696 million CFA - see 3, p. 12) were indeed collectible, the two-point difference between the interest charged by ONCAD (6.5 percent) and the maximum permissible under Monetary Union rules (8.5%) would represent a relatively paltry 234 million CFA(about one million dollars) over six years, or less than $200,000 per year.

The Consultant, familiar with the rural financial situation in other developing areas of the World (Latin America, Asia and Europe), was struck by the assertions that there are no informal money lenders in the Lower Casamance. Acute cash needs are reportedly met within the extended family including its urbanized members; no interest is charged and debts are repaid as and when possible.

Tableau IV | TAUX PRATIQUES AUPRES DES BANQUES COMMERCIALES | TABLE 1

INTERETS CREDITEURS | DE L'U.M.O.A.

en % l'an

	AVANT 1975						A PARTIR DE 1975			
	Jusqu'à 200 000	De 200 001 à 500 000	De 500 001 à 1.000 000	De 1000 000 à 5 000 000	De 200 001 à 5 000 000	Au-dessus de 5000 000	Jusqu'à 200 000	De 200 000 à 500 000	De 500 001 à 2 000 000	Au-dessus de 2 000 000
Dépôts à vue	Néant	1	1,50	2	-	2,50	Néant	2,5	3 *	3 * *
Dépôts à terme (a)										
- moins de 6 mois	Néant				-		3,25 *	3,75 *	4,25 *	4,25 * *
- de 6 mois à < 1 an	Néant	3,5	3,5	3,5	3,5	4,5	4,25 *	4,75 *	5,50 *	5,50 * *
- à partir de 1 an	Néant	3,5	3,5	3,5	3,5	4,5	5,25 **	6,00 **	6,50 **	6,50 * *
Bons de Caisse (b)										
- de 6 mois à < 1 an							4,25 *	4,75 *	5,50 *	5,50 * *
- partir de 1 an							5,25 * *	6,00 **	6,50 **	6,50 * *
Compte d'Epargne	3,25						5,50	Dans les limites du montant (maximum fixé dans chaque Etat).		

(a) Les avances dépôts à terme peuvent être consenties à un taux correspondant au taux d'intérêt versé sur ces dépôts, plus 1 %.

(b) Les bons de caisse sont émis en coupures de 5 000 francs CFA minimum pour une durée qui ne peut être inférieure à 6 mois. Ils peuvent être rachetés par les établissements émetteurs sans déduction d'un escompte calculé à un taux pour la période restant à courir qui ne peut être ni supérieur au taux nominal du bon, plus 1 %, ni inférieur au taux nominal du bon.

* Taux fixe

* * Taux minimum.

V. THE ROLE OF A SPECIAL AGRICULTURAL CREDIT PROGRAM IN THE PROJECT AREA

a. Present status of farm credit in the project area.

Until the initiation of the SOMIVAC/PIDAC Programme spécial, farm production credit in the lower Casamance was limited to the ONCAD - administered farm supply system related exclusively to the peanut crop. PIDAC began its credit program in 1978/1979 as an adjunct to - and tool in - its farmer organization/agricultural extension effort. This effort appears designed principally to (a) build up true grass roots, inter-dependent self-reliance and development participation among the peasants, and (b) assist them in a more intensive use of their principal resources: labor, land and water.

The key to the first objective is the Groupement de Producteurs, an informal association of peasants usually confined to one or two villages. This is a somewhat radical departure from the ONCAD-sponsored "cooperatives" which tend to exist in name only for the purpose of receiving farm supplies on credit and delivering their peanuts at the support price.

ONCAD's supply credit and price subsidies have obviously been responsible for a good deal of technical progress. Country-wide, the effect on peasant technology seems to have been impressive. For example, the following percentage increases in the number of key pieces of farm equipment took place between 1970/1971 and 1975/1976 (15, p. 94):

Seeders	57
Cultivators	116
Peanut lifters	138
Plows	369
Carts	97

The principal justification for a special PIDAC-managed credit program for equipment is the fact that ONCAD only supplies and finances simple tools and implements of the kind that are manufactured in Senegal .

Except for the important differences concerning intensive technical and organizational assistance; the much more manageable size of the Groupement as contrasted with the"cooperatives", and the financing of crops other than peanuts, the procedure for PIDAC's current credit program is much the same as ONCAD's : the encadreur collects farmer plans for all crops, adds up the request and compares them with the projections made previously in the central office on the basis of assumed production and repayment capacities.

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If they are approximately consistent with these projections, the consolidated requests are forwarded to ONCAD for procurement; the credit is provided to ONCAD by the BNDS in the amount requested. PIDAC's intendant de zone determines repayment capacity of each groupement, and the vulgarisateur follows the operations throughout the crop season. Repayment may be made in kind or cash. As for the ONCAD loans, repayments in kind are credited at the official purchase price in effect at the time of repayment. The products are turned over to ONCAD for storage and handling. May and June are the most intensive months for credit and supply placement. PIDAC complains about the frequency of slow and short deliveries of fertilizer, but ONCAD replies that the field offices (including ONCAD's) fail to realize the need for early orders in order to give the organisation an opportunity to place its orders (especially for imports)in time and arrange for upcountry transportation. PIDAC also claims that it had to provide all local transportation for supplies delivery last crop season.

The nature of the supplies financed with the existing PIDAC program is much the same as ONCAD's. The financing of major pieces of equipment, such as two-wheel tractors, threshers, shellers, rice mills, etc. is awaiting the release of AID funds.

PIDAC appears to have a satisfactory institutional infrastructure in place, and to have acquired the experience, to be able to administer effectively a modest "special" credit program such as that contemplated by the AID project paper. Its headquarters staff is staffed by specialists in such activities as extension, cooperative development, water management, credit and supply. Each of the project area's twelve zones is headed by a "chef", with an "intendant" in charge of coops, supplies and loan collections. Thirty "vulgarisateurs" (middle-level extension agents) have already been fielded, and an additional 20 are in process of recruitment. This represents an average of about five presently "encadrés" villages, and 165 producers per agent. With these agents earning at present 37,000 CFA per month, that is probably all the agency should field for the moment. In accordance with PIDAC's policy, the vulgarisateurs call for volunteer farmer cooperators in the villages and attempt to work through them for maximum effectiveness and efficiency.

In 1979/1980, PIDAC made available credit-funded supplies for farming other than peanuts (which remain the responsibility of ONCAD) in the amount of 47 million CFA ($220,000). The number of individual credit users is not known. If spread over all presently "encadrés" farmers, the 1979/1980 loans average about 5 600 CFA (about $26) per capita, a respectable figure considering that, as SOMIVAC's Plan Directeur points out, average cash earnings per active person in the entire Casamance are only about 20,000 CFA, and that this level of earnings - and the considerable uncertainty from year to year - leads to strong risk aversion.

...:/...

Loan recovery is the responsibility of PIDAC's vulgarisateurs. The rate of repayment of the 1979/1980 outstanding loans in the PIDAC program to date is little different from ONCAD's: at the end of February 1980, it ranged from one percent to 21 percent in the different zones, compared to 5-27 percent for ONCAD. That ONCAD' record appeared to be slightly better is ascribed to the fact that its clients must sell their peanuts to ONCAD, whereas PIDAC's clients are free to sell their produce anywhere - or to keep it at home. In any case, the official rollover percentage for outstanding loans on account of crop losses is applied automatically to PIDAC clients.

No overall proportion has been calculated yet for PIDAC. In the case of ONCAD, data furnished by PIDAC indicate the following situation on 2/29/80 (in thousand CFA):

Amounts loaned 1977-1979	25 872 a/
Amounts collected through 2/29/80	1 836
Percentage of collections	7 percent

a/ Includes medium term credits.

These data also show that PIDAC's regular program dispensed nearly twice as much credit in one year as was granted by ONCAD in the last three years.

Advances of seed are also reimbursed, as usual, at a 25 percent rate of interest, in kind. Collection of seed from run-of-the-mill peasant crops appears to be a technologically dubious procedure if real upgrading of seed material is desired. In the longer run; it may perhaps be more advantageous for PIDAC to work with ISRA to contract with selected producers for the multiplication of selected seed with ISRA certification. Such seed could then be supplied as part of the overall credit package and charged at actual production cost plus handling, to be reimbursed in cash or kind (as produce, not as seed) as part of the client's overall repayment package. (It may well be that the 25 percent interest rate on seed is based on the assumed difference in quality between the seed furnished and that collected as reimbursement).

b/ The objectives of the special credit program.

It is important to bear in mind that, in the lower Casamance, neither the ONCAD "cooperatives" nor the PIDAC-sponsored groupements are joint production and/or marketing societies. The land tenure system lets each family cultivate its own plot (regardless of whether it is located in the lowland rice paddies or in the upland dry farming area, or whether it is "owned", occupied or borrowed).

.../...

Cooperation usually takes the form of several families joining forces to improve water management in the paddies, or perhaps (though this was not observed) to clear a new area of forest in the uplands. The extent to which the groupement can be stimulated to become joint production societies will depend (aside from deep-rooted socio-cultural factors that escape the casual observer) on PIDAC' success in promoting land consolidation ("remembrement") in the rice paddies and in the uplands. A special credit program can be an important tool in such an effort in view of the important reciprocal relationship between land consolidation and the utilization of labor-extending equipment. One of its fundamental economic objectives would be the enhancement of labor available at the critical planting time. Obviously, the miniscule plots of paddy rice land available to each family are not technically suited for cultivation with anything but hand tools; moreover, the cash returns, even at substantially higher yields, would not be able to pay for individually owned equipment and draft animals. The use of credit for the introduction of such equipment must therefore be considered as a tool for promoting and reinforcing a three-pronged approach that includes water management, land consolidation and labor pooling. In the uplands, where the land constraint tends to be less serious, the introduction of labor-enhancing equipment could assist in both raising yields and expanding the land resource base. Finally since the equipment will have to be collectively owned, the joint responsibility for its use and maintenance, and for the repayment of the credit, should be designed to promote greater inter-family cooperation and the kind of true co-responsibility that has apparently not resulted from the supposedly collective responsibility for individually used annual input credit.

In addition to promoting larger output and yields of grains, the program's objective is to diversify farm production through the introduction of alternative crops, particularly in the presently and potentially irrigable areas. This is of special importance in view of the obvious reluctance of the farmers in the lower Casamance to consider rice a cash crop. The alternatives appear to be essentially fruit and vegetables, for which the area is said to have a real aptitude. Both require relatively high capital investment which must be provided through credit. Enterprising individuals in a number of villages, partly with the assistance of the Taiwanese and Chinese technical missions,[1] have demonstrated the feasibility of such investments.

1/The Chinese mission, which replaced the Taiwanese in 1973, departed in 1978. Since it made no effort to involve Senegalese agencies in its work and left virtually no record of its activities, PIDAC has found it difficult to pick up the pieces.

A third type of investment for which funds are not at this time available from other sources is for community or cooperative use of first-stage processing equipment for farm products: peanut shellers, rice threshers and mills, simple palm oil producing gear, palm kernel crushers, to name the principal ones currently in demand. Greater introduction of such items could reinforce cooperative marketing, although at first they may merely give villages or groups of families access to such machines on a fee basis.

In short, two basic economic rationales support the type of investment contemplated: a new - or enhanced - income source, and the freeing of labor for more productive activities.

VI. IMPLEMENTATION OF THE SPECIAL AID-FUNDED CREDIT PROGRAM.

The director of PIDAC considers early implementation of what will be called the "special" credit program essential. The initial objective will be mostly its use as a tool for encouraging greater farmer and village participation in the overall PIDAC effort. However, not much thought had been devoted to the ways and means for its implementation because the funds had been "frozen" by AID. A similar situation prevailed in the AID mission. Thus, while a short-term consultant is perhaps in a position as an "outsider" to suggest a broad conceptual framework, many of the details will have to be filled in through discussions between the local staffs of the two agencies. It should be borne in mind that, insofar as equipment and supplies for the planting season are concerned, discussions should begin without delay if initiation of the program is desired this year; April and May are the crucial decision making months.

a. Size of the program.

In view of the eminently sensible desire of PIDAC to utilize the special program exclusively for the financing of items that are not presently covered by either PIDAC or ONCAD, and that these items tend to be relatively costly, it is believed that the allocation of the equivalent of $1.25 million during the initial implementation phase of the project is a reasonable sum. Disbursement of this amount would provide an average equivalent of about US$5,000 per village currently "encadré". It would be well to allocate a generous amount for disbursement during the first year in order to avoid discrediting the program inthe eyes of the villagers if demands and PIDAC-approved projects were to exceed financial availabilities. Any funds undisbursed during the first year can be rolled over the second year, and second-year new disbursement plans can be adjusted (up or down) to take account of first-year experience.

On the other hand, restraint should be exercised by both AID and PIDAC in terms of promoting a predetermined rate of disbursement for its own sake.

.../...

Pressure in this sense on the implementing agency and through it on its field agents can tend to lead to ill-conceived "projects" leading to loan delinquency and ultimate discredit for the program and the agency.

It is assumed this initial allocation could be supplemented in future years if the experiences are positive and if AID continues to give financial support to the lower Casamance development program.

b. Objectives and purposes.

The main focus of the initial program may well be that expressed by the director of PIDAC, i.e., its use as a tool to promote greater willingness to participate in the broader aspects of its program. In this context, it will be useful to bear in mind that credit is indeed but a tool, albeit an important one, for assuring a level of working and investment capital required to achieve a given level of productivity of land and labor. Implementing officials should not be tempted to consider the special credit as a vehicle for giveaways to attract clients. Fundamentally, the special fund must be used for technically, economically and socially feasible investments designed to create new income flows for the borrowing group. Inasmuch as the investments will tend to be of a nature and size that exceed the needs and repayment capacities of individual producers or families, they should also constitute - as previously mentioned - a powerful tool for reinforcing true cooperation and co-responsibility within the group concerned.

The consultant and PIDAC are in general agreement with the type of investments contemplated in the Project Paper. However, both doubt the wisdom of introducing credit for building materials and medicines at this time. Building materials do not seem to have a high priority in the eyes of the villagers. Moreover, any indebtedness on account of economically non-reproductive expenditures at a time when the peasants can hardly repay their annual crop credits would only add fuel to the fire. The same can be said for medicines; in addition, there now appears to be a special program for making medicines more readily available in rural areas that would make their inclusion in the PIDAC credit redundant. It is suggested that if AID and SOMIVAC find that there is a real felt need for help in housing improvement and medicines, these materials be provided through donations, rather than in the form or credit.

As regards economic goals, the investments to be financed should be able to pass one or more of the following tests:

i. They should allow the marketing or processing of previously unutilized or underutilized products.

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Palm oil presses and kernel crushers are an example, especially if it can be shown that the value of the palm fruit production foregone because of tapping of trees for palm wine is greater than the value of the wine.

ii. They should result in freeing family labor - male and/or female - during full employment season for productive activities the marginal returns from which exceed the amortization, depreciation and operating cost of the investment.

Rice threshers and mills can be an example if there is a shortage of female labor for rice transplanting, but they cannot be an end to themselves unless and until marketable surpluses of rice are produced. Draft animals or, better, two-wheel tractors, and their respective implements, are another example if and when there is a real labor constraint at planting time owing to the simultaneous exigencies of the rice paddies and the uplands plots. 1/

iii. They should allow increasing labor returns by expanding the land area that can be cultivated where labor, rather than land availability is the absolute constraint.
Animals and tractors and their implements are again examples.

1/ The consultant would discourage the introduction of draft animals in favor of small tractors for the following reasons:
(1) The Diolas have no tradition in the use of draft animals; since animals work more slowly than tractors and since training in handling animals tends to be more difficult than for small tractors, there would seem to be little justification for preferring animals;
(2) it seems to be impossible, or, at the very least, extremely difficult, to persuade Diolas to train and use their own cattle for working; since this means that cash has to be paid for purchasing trained work oxen from other ethnic groups (usually from outside the project area), it is just as well to spend the cash for buying tractors.

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iv. Where land availability is the fundamental constraint, they should allow appropriate intensification of land use, provided that the marginal returns can pay for the investment.

Examples are irrigation and other water management works of all kinds, accompanied by crop diversification for market production. In order to create useful employment during the dry season and reduce seasonal migration where the opportunity cost of the migrant labor is very low, a part-food, part-cash system of labor remuneration might be devised to accompany a loan for essential materials or equipment rental. Other examples are plantations of fruit bearing or forest trees with special long-term credit provisions for the latter.

v. Where essential services are lacking, they should serve to create non-agricultural employment opportunities the returns from which will pay for the investment.

Simple equipment for blacksmithing, carpentry, mechanical repairs, etc, accompanied by appropriate training, fall into this category. 1/

c. Institutional and financial arrangements.

The types of investments to be financed through the special credit program are not obtainable through ONCAD channels. The machines, equipment, seeds and tree saplings or grafts must be specially ordered by PIDAC directly from suppliers. Hence, there is no reason to involve ONCAD in the operation except when borrowers make a payment in kind of a commodity that is pruchased and stored by ONCAD.

i. It is proposed that the credit funds be deposited in a Ziguinchor bank in a special account to be opened by PIDAC. Since PIDAC will presumably continue the established practice of supplying the capital goods to the borrowers, rather than cash, the fund will serve primarily for payment of the suppliers. Such payment, to the extent that it is in accordance with local practice, should provide a small advance with the order, the balance to be paid on delivery. Assumingthat the goods are delivered to the borrower - or picked up by him - as soon as received in the PIDAC warehouse, the initial date for the loan debit would normally coincide with the date of full payment to the supplier; this would tend to facilitate bookkeeping. (In no case should a loan debit be entered prior to full supplier payment).

1/ In one village visited, a simple rice thresher had been discarded, allegedly because no one was able to replace the wooden box and treadle and some of the wire teeth. Also, an expensive Taiwan-made rice mill was not functioning for lack of a spare part for the engine that conceivably could be reproduced in a semi-sophisticated district workshop.

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ii. Duplicate forms should exist for the loan transactions.

One duplicate will be on file in the appropriate PIDAC office; the other will be kept by the borrower. The forms will show all debits and credits, as well as the description of the goods in question, the respective items to be initialed each time by the authorized representative of PIDAC and of the borrower. (This is considered of substantial importance for the creation of mutual good faith and of peasant awareness of their rights and responsibilities).

iii. Requests and opportunities for investments will be screened and/or identified in the first instance by the vulgarisateurs; the latter will receive appropriate guidance regarding the criteria to be applied at their level. All proposals will then be subjected to technical and socio-economic appraisal by the chef de zone and the intendant. Appropriate but simple guidelines and forms will be issued to them. Final approval - or disapproval - will be issued by the joint SOMIVAC/PIDAC credit committee, which will be constituted in accordance with the decisions of the respective director. At least one qualified representative of the program participants should take part in the deliberations at both the zone and headquarters levels. Any further complication of the loan approval system should be avoided.

iv. In order to assure that the most appropriate equipment or material is provided in each case, PIDAC's purchasing manager should consult the competent locally assigned technical assistance personnel as well as objective experts in Dakar. Equipment should be ordered only from firms that guarantee adequate service and parts; to the extent feasible and legally permissible, there should be maximum standardization of similar pieces of equipment and machinery throughout the project area.

v. Basic maintenance and service should be the responsibility of the borrower, and local talent should be used for this purpose to the maximum feasible extent, in accordance with point b, v above. PIDAC's vulgarisateurs will exercise continuous vigilance to this end. They will provide assistance and advice where needed, and report wilful negligence to higher authority. Where such negligence is not promptly remedied, PIDAC will withdraw the item in question from the borrower and will charge the depreciation to that date to his account. In that case, the borrower will owe only said depreciation, less whatever share of the principal sum has been amortized.

vi. Loans for machinery and equipment should be made for a maximum of five years. Since the equipment will presumably begin producing revenue at once, a grace period will not be necessary.

.../...

For fixed investments such as wells, small dams and other irrigation works, and tree plantations, longer term loans might be contemplated on the basis of financial analysis of the project. In the latter case, a grace period will also be required until the trees begin producing. For bananas, one year will be sufficient, but other fruit trees, and especially forest trees, will require longer grace periods. It is suggested that there be no payments whatsoever during the grace period and that the interest accruing during such period be added to the principal sum to be amortized during the pay-back period. The direct reduction method of amortization is suggested.

vii. The suggested interest rate is the Central Bank's preferential discount rate plus two points, in line with the rate agreed with the IBRD for the Sedhiou project.
At the present time, that rate is 7.5 percent, tying it to the Central Bank discount rate will allow adjustment of the actual rate at such time as the BCEAO agrees to a general change in the overall rate structure (see .III. above). Such possible future adjustment, of course, should cover only new loans made after the effective date of the adjustment.

viii. Since PIDAC is not a bank, it is assumed that all costs of administering the credit portion of its program will be covered by its operational budget. Inasmuch as the AID contribution is in grant form, there seems to be no reason for charging any interest to PIDAC. PIDAC's credit fund will have thus a potential annual net income equaling 7.5 percent of its accounts receivable. On a cash flow basis, this income may be slightly smaller during certain years depending on the amount of loans outstanding that provide for a grace period.

ix. The interest income will be designed to increase the nominal value of the credit fund which, it is assumed, will be established as a permanent revolving fund. In view of the prospective rate of inflation, the interest rate will, in the foreseeable future, barely maintain the fund's real value. Nevertheless, as shown in the early part of this report, this is a normal situation in Senegal and is offset, where required, by additional resources from budget funds or from the Central Bank. It should not be of any concern for AID.

x. In addition, the interest income will protect the fund to some degree against loan defaults, which it is hoped will be kept to a minimum because each application will be carefully screened as to its viability and the personal credit-worthiness of the borrower group. Moreover, the debts incurred by borrowers under this program will not be subject to such annual rollover concessions or debt forgiveness as may continue to be decreed by the GOS for its programme agricole or similar production loan programs.

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This should not imply that PIDAC may not consider the need for some relief on a case-by-case basis. However, such consideration will be exceptional and, if relief is granted, it will only be in the form of refinancing and at full interest. 1/ It will be of the utmost importance that the peasant communities understand this from the outset in order to avoid confusion and friction.

xi. A local bank will have to be PIDAC's financial agent. If AID is able to advance sufficient funds to allow PIDAC to maintain a certain minimum balance in its deposit, the bank may be willing to waive any service fee.

xii. The possibility of demanding security deposits of borrowers has been discussed with PIDAC. Such nominal deposits are presently required of both the ONCAD cooperatives and the PIDAC groupements for normal production credits. They are supposed to gather interest but their status has not been investigated by the consultant. It is suggested that such security deposits would be redundant in the case of the special program in question in view of the other safeguards that are proposed. They would represent a financial hardship for the borrowers if the amounts were financially significant in relation to the amounts of the loans; if they were not, they would be meaningless symbols.

xiii. A perhaps more useful mechanism was also discussed. This would consist of an annual deposit for depreciation of equipment to be made by the borrower. This would in effect constitute concrete collateral. More importantly, it would allow the borrower to replace or completely overhaul the equipment at the end of its useful life; alternatively, it would constitute a savings account from which new types of investments could be financed, perhaps in conjunction with a new loan. The depreciation deposit would be calculated by dividing the price of the equipment by the standard number of years of useful life estimated for each item, plus the established interest rate to compensate for price increases. Normally, the number of years of depreciation deposit would be greater than the amortization period fo the loan. In the case of non-equipment loans, a somewhat different method will need to be devised, although the principle would be similar.

In addition to its specific purposes, the depreciation deposit would serve to introduce the concept of saving into the peasant society in a manner that will be generally understood, owing to its being tied to the replacemnt cost of the original investment.

1/ Since the loans are collectively guaranteed, there will be no need for credit life insurance.

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xiv. It will be necessary to establish, at the village level, a system that will allow the "painless" accumulation of the cash required for the depreciation deposit. (The annual loan amortization would presumably be due at harvest time, as in the case of other loans). This could be accomplished by charging each member of the community a user fee each time he or she uses the item. The fee should be calculated to be sufficient to cover operating and routine maintenance and repair costs that require cash payments outside the village.

VII. SOME COLLATERAL ASSUMPTIONS AND SUGGESTIONS FOR EFFECTIVE PROJECT IMPLEMENTATION.

On the basis of the brief time the consultant spent in the country, and particularly in the project area, it would be presumptuous to pretend to second-guess the project preparation and implementation process. Moreover, the scope of work does not call for such an evaluation. Nevertheless, inasmuch as the special credit program is not designed to - nor can it - operate in a vacuum, the consultant wished to make a few points that are not specifically related to credit but will, in his opinion, impinge on its effectiveness and viability.

a. Project management.

All concerned are aware that the project as a whole is way behind schedule. This is not considered necessarily harmful, as it may merely reflect the unreadiness of the implementing institutions to proceed according to the original schedule,.which always tends to be optimistic. Institution-building requires patience. The most important consideration is perhaps to avoid allowing certain operational activities to proceed at a faster rate than the more fundamental aspects. From this point of view, it is perhaps fortunate that it had not been possible to implement the special credit program until PIDAC got itself geared up for the job.

From an operational point of view, one of the main problems - common to AID projects and mostly beyond the control of the missions concerned - is the lack of continuity in project management and monitoring. It is satisfying to know that a competent resident project manager is being contracted on a long-term basis.

.../...

From the point of view of technical impact of the credit program as part of the overall development effort, the following considerations are offered:

b. The limitations of rice.

Tangible increases in peasant incomes and marketable produce will not be forthcoming from rice in the short run. The best that can be expected is that the rural areas will remain self-sufficient. The increasing salinity problem, related partly to the unfavorable rainfall pattern in recent years, coupled with slow progress in water and soil management works, would seem to militate against this. The implication for the credit program is that, in principle (i.e., barring pleasant surprises) investments in the rice production chain should be made in the form of grants, not as credit. As was pointed out in V and VI b. ii above, credit for rice tilling, threshing and milling equipment should be granted only where it can be shown that such investment will result in marginal returns to "liberated" labor in other activities that will pay for the investment.

c. Land use alternatives.

In addition, research and extension efforts should be directed heavily towards land use alternatives (including double cropping with or without irrigation) for the swamp and flood rice areas; upland rice growing should probably be discouraged. One alternative for the chronically saline areas that does not seem to have been considered but might merit investigation is pisciculture, including shrimp. It should also be borne in mind that the continued existence of a relatively undisturbed mangrove environment is essential for continued shrimp harvesting off the coast, in view of the mangroves' role in the breeding cycle. Nevertheless, the mangrove itself can also be an important permanent source of income and fuel. Mangrove is a fast-growing, self-reproducing plant which, under rational, non-destructive management can yield a permanent output of charcoal. This activity can also absorb a good deal of idle dry-season labor.
There is little or no reference to manioc in the documentation reviewed. Yet, it seems to be of a certain importance in the local diet and is found growing in small patches in most villages. Perhaps there is too much emphasis on grain crops.

d. Farm machinery.

Much research and development needs to go into simple mechanization. It has been learned from reliable authority that the implements being put on the market by the government-owned corporation, SISCOMA, is often unsatisfactory and of poor quality. PIDAC staff affirm that these implements can be used, for example, with any brand of two-wheel tractor providing a three-point hitch, but they seem to be unconcerned with the appropriateness and quality of the implements. Moreover, it appears surprising that ISRA's rice research station has neither a program nor staff for research in farm machinery and equipment.

.../...

Such a capability, unless it exists elsewhere in the Casamance, should be created without delay and should, of course, be concerned with the tillage, harvesting and primary processing of all crops.

e. Marketing and transportation.

The lower Casamance is often mentioned as a great potential supplier of fruit and vegetables. The agronomic potential is certainly evident even to the casual visitor, especially insofar as certain fruit trees are able to exploit the fresh ground water table without the need for investments in wells and water lifting devices and without the risk of seriously lowering the water table. However, there seems to be little awareness of the marketing problmms once the small local demand has been filled. There is certainly a great potential demand in Dakar, not to speak of exports: bananas, for example, are imported from Guinée, and table oranges from Morocco.
But translation of this potential into effective demand requires an efficient and low-cost transport system between the lower Casamance and Dakar (if not with Europe). Such a transport system does not exist. In view of the uncertain status of the construction of a bridge across the Gambia river, it cannot be foreseen whether, and when, an adequate road transport system will be provided. The completion of the road network through Tambacounda is not considered to be a viable alternative. The growing coxt of motor fuel must be considered, and the fact that Senegal's peanut oil exports are beginning to be barely sufficient to cover the cost of petroleum imports.

The consultant was not able to obtain data on the real cost of truck transportation between Ziguinchor and Dakar, ONCAD' flat rate to and from "outlying areas" is not specific enough. It is said that the average rate of ferrying a truck across the Gambia is 25 000 CFA, which would mean 2 500 francs (about $12) per ton for a ten-ton load. This, of course, does not include the cost of the truck's and driver's idle time or the spoilage of produce while awaiting space on the ferry.

It is puzzling that this situation seems to be regarded like the weather, i.e., everybody talks about it but nobody does anything about it. Not only was the consultant unable to find any studies of transport costs; there do not appear to be any studies of the potential and problems of coastal transportation between Ziguinchor and Dakar, nor is serious consideration being given to this possibility. Yet, Ziguinchor has a 200 meter concrete dock which only needs loading and unloading equipment, as well as virtually unused warehouses, and it is visited occasionally even by small tankers.

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A few thousand tons of merchandise were still being unloaded at Ziguinchor as late as 1978, but hardly any goods were being shipped out by sea. Even ONCAD's fertilizer is brought in by truck.

The problem (aside perhaps from indifference) appears to be the exceedingly shallow draft at dockside as well as through the broad Casamance estuary, especially at low tide. Maximum depth of the water is said to range between five and six meters. Dredging of the dockside and protection from silting would appear to be relatively simple, but dredging a channel through the estuary would probably have to be repeated every year. An alternative solution worth exploring could be the use of shallow-draft barges that coult be towed along the coast by seaworthy tugs, to be exchanged for shallow-draft tugs at the entrance to the estuary.

In summary, while the facts may prove the above considerations to be idle layman's speculation, it is believed that a sizeable development effort such as that being supported by AID for the lower Casamance makes an investigation mandatory.

The need for, and feasibility of, processing plants should also be studied in this context.

I. Social organisation, credit and price policies.

The special credit program will be the direct responsibility of PIDAC. Yet, ONCAD or its successor agencies (a radical reorganisation is said to be impending) will continue to play an important role in supplying routine inputs and marketing crops. It is submitted that their success will depend largely on a complete redirection of the "cooperative" organisation and "credit" approach - both of which, in social terms, have been quite negative to date - and on a change in price policies, which are still believed not to be conducive to promoting greater domestic production despite improvements in recent years.
Now that subsidies on all inputs except fertilizer have been abolished (and, who knows, fertilizer subsidies may soon follow), farm price and marketing policies will hav to be completely rethought.
For example, the recent experience with ONCAD millet purchase program indicates that it was effective only at the supply, not a the demand, level. Having abolished consumer price subsidies on rice some years ago with reportedly positive effects in terms of reducing demand, the GOS might want to experiment with a combination of high farm support prices for millet and a subsidy on consumer prices, with the difference made up from the government profits on peanut oil exports.

.../...

On the other hand, the support price for paddy rice is already higher, in terms of milled rice, than the current landed price of imported rice (an average of 45.2 CFA per kg vs. a farm price of 41.5 CFA per kg of paddy), even considering the reportedly low quality fo the imports. 1/

Raising the price of rice to the consumer above the present level of 100 CFA might be politically difficult; cereals make up 28 percent of the urban African family's food budget and 15 percent of the overall market basket, and their combined price index had already gone up 80 percent from 1972 to 1975 following substantial farm price increases and elimination of consumer subsidies.

1/ It is suggested that policy makers make use of the data contained in table 1, p. 19 of (13).

ANNEX A/

DOCUMENTS CONSULTED

1. AID Project Paper - Senegal 685-0205 and annexes, July 1978.

2. AID, Country Development Strategy Statement, Senegal, FY 82, January 1980.

3. Donald Brown, Economic Background and Supporting Data, Senegal CDSS, AID/Senegal, February 1980.

4. IBRD, Agricultural Sector Survey, Senegal, November 1975.

5. G.V.V. Rao, Casamance Project Status Report, November 1, 1979, AID/Senegal

6. Anon, Situation Economique et Financière du Sénégal au début de 1980, typescript, Dakar, January 31, 1980.

7. BCEAO, Statistiques Economiques et Monétaires, November 1979, n° 277

8. L'Economie Ouest Africaine, n° 277, November 1979.

8a. Banques et Monnaies, n° 277, November 1979.

9. Louis Berger International, Inc., An Analysis of a Semi-Commercial Millet Transfer Between Senegal and Mauritania, AID/Senegal, Feb. 1980.

10. C.K. Kline, et al. Agricultural Mechanization in Equatorial Africa, Michigan State University, December 1969.

11. Ministère de la Coopération/ Caisse Centrale de Cooperation Economique, Etude sur le stockage Céréalier au Sénégal, Dakar, July 1979.

12. Cheikh Tidiane Sy, L'ONCAD EST-IL UN MAL NECESSAIRE 2., MIMEO (Dakar, December 1979).

13. SOMIVAC, Plan Directeur du Développement Rural pour la Casamance, Avant Projet, Tome III, Esquisse d'une stratégie de Développement Rural pour la Casamance. Ziguinchor, September 1978.

14. Anon., The Republic of Senegal, 20 pp. printed in London, 1978

15. Sylvie Bernard et al., Le Sénégal en Chiffres, 1978 edition.

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ANNEX B/

PERSONS CONSULTED

I. DAKAR

AID: James Livingston

Senegal: James Keyes
Thomas O'Dell
Donald Brown
Daniel Lamendola
Ray King

IBRD:

Washington: Djibril Aw
Dakar : Jonathan Brown

FAO/Dakar: Mr. Rossi-Ricci, Deputy Representative

American Embassy
Dakar: Mr. Lawrence Greenwood, Economic Officer

Banque Nationale de Développement du Sénégal: Mr. Samcidine Dieng, Chief, Cooperative Credit
(BNDS)

Banque Centrale des Etats de l'Afrique de l'Ouest: P.O. Sakho, Deputy Chief, Credit Dept.
(BCEAO)
Aziz Diop, Dep. Chief of Research, Senegal Branch

ONCAD: Mr. Mamadou Dieng, Director, AMR (Farm Supplies)

CITIBANK: Mr. Chris Rogers, Manager

Ecole Nationale d'Economie Appliquée: Mr. Cheikh Tidiane Sy, Director
(ENEA)

II. ZIGUINCHOR

SOMIVAC: Mr. Badji, Sec. General
Mr. N'Djiao, Chief, Ag. Credit
Mr. Charles Joyce, Adviser
Mr. Reiner Schillinger, Adviser

ONCAD: Mr. Sène, Chief, Coop. Development

FANGOTT Village (Arrondissemnt de Niaguis): Mr. Basane, President, Communauté Rurale.

PIDAC: Mr. Sakho, Director

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received in [illegible] 2/29/80

ANNEX C.

TELEGRAM

INDICATE
[ ] COLLECT
[X] CHARGE TO AID

240950Z JUL 79

FROM: AMEMBASSY DAKAR

CLASSIFICATION: UNCLASSIFIED

E.O. 12065: N/A

TAGS

SUBJECT: CASAMANCE PROJECT [illegible] FOR AG. CREDIT SPECIALIST

ACTION: SECSTATE WASHDC

UNCLASSIFIED DAKAR [illegible]

AIDAC

AID
AMB
DCM
CHRON

FOR: TODD CRAWFORD, [illegible]/DR/SFWAP

REF: (A) DAKAR [illegible]884, (B) STATE 175430

1. THE AGRICULTURAL CREDIT SPECIALIST WILL PERFORM THE FOLLOWING TASKS, DURING APPROXIMATELY ONE MONTH OF TDY, IN SENEGAL.

(A) STUDY THE PRESENT CREDIT POLICIES AND MANAGEMENT BY READING RELEVENT DOCUMENTATION AND TALKING TO ALL CONCERNED, ESPECIALLY IN ONCAD.

(B) UNDERTAKE A THOROUGH REVIEW OF THE INTEREST RATE POLICY CONSIDERING THE PRESENT PRACTICES NATIONWIDE AND IN OTHER PROJECTS IN THE REGION, REPAYMENT HISTORY, FARMERS ATTITUDES, CONSISTENCY TO NATIONAL AND HISTORICAL ~~XX~~ POLICIES, SIZE OF PROPOSED SUPPLEMENTAL CREDIT VIS-A-VIS ONCAD CREDIT IN THE PROJECT AREA AND OTHER RELEVENT MATTERS. BASED ON THIS REVIEW RECOMMEND A REALISTIC INTEREST RATE FOR THE SUPPLEMENTAL CREDIT.

DRAFTED BY	DRAFTING DATE	TEL. EXT.	CONTENTS AND CLASSIFICATION APPROVED BY:
G.V.V. Rao;BE	7/23/79		DIR:N.SCHOONOVER

CLEARANCES:
Livingston (in draft)
Chiavaroli (in ~~dx~~ draft)

UNCLASSIFIED
CLASSIFICATION

OPTIONAL FORM 153
(Formerly FS-413)
January 1975
Dept. of State

(C) UNDERSTAND THE BACKGROUND OF THE SPECIAL CREDIT ELEMENT OF THE CASAMANCE PROJECT THROUGH A STUDY OF THE PP, DISCUSSIONS WITH ONCAD, SOMIVAC, PIDAC, USAID, WORLD BANK AND OTHER CONCERNED.

(D) DETERMINE THE RELEVENCE OF AG.CREDIT TO THE PROJECT, ADEQUECY OF EXISTING CREDIT FACILITIES AND NATURE AND QUANTITY OF SUPPLEMENTAL CREDIT NEEDS TO STRENGTHEN AND HELP ACCOMPLISH THE OVERALL OBJECTIVES OF THE PROJECT.

(E) REVIEW THE SUPPLEMENTAL CREDIT MANAGEMENT STRUCTURE DESCRIBED IN THE PP, ITS CONSISTENCY AND COMPATIBILITY VIS-A-VIS EXISTING ONCAD CREDIT CHANNELS AND OTHER PROJECT ADMINISTRATIVE STRUCTURES. RECOMMEND NECESSARY CHANGES AND A COMPREHENSIVE CREDIT ADMINISTRATION STRUCTURE FOR THE PROJECT.

(F) PREPARE A COMPREHENSIVE REPORT SYNTHASIZING THE RESULT OF THE INVESTIGATIONS UNDERTAKEN BY HIM AND GIVING DEFINITIVE, REALISTIC RECOMMENDATIONS ON THE SUPPLEMENTAL CREDIT ISSUES DESCRIBED IN (A) TO (E) ABOVE.

2. THE CANDIDATE SELECTED FOR THIS ASSIGNMENT SHOULD HAVE THE FOLLOWING QUALIFICATIONS:

(A) M.S. OR HIGHER LEVEL DEGREE IN AGRICULTURAL ECONOMICS, AGRICULTURAL CREDIT ADMINISTRATION OR RELATED FIELD.

(B) TEN OR MORE YEARS OF EXPERIENCE IN AGRICULTURAL CREDIT PLANNING, AND MANAGEMENT, INCLUDING SUBSTANTIAL, AT LEAST HALF OF THE EXPERIENCE IN DEVELOPING COUNTRIES, PREFERABLY IN AFRICA.

(C) EXPERIENCE WITH CREDIT MANAGEMENT ON PROJECTS INVOLVING ~~XXXXXX~~

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CAPITAL SUPPLIED BY EXTERNAL AID AGENCIES.

(D) WORKING KNOWLEDGE OF FRENCH, PREFERABLY, ABILITY TO CONDUCT INDEPENDENT DISCUSSIONS IN FRENCH WITH SENEGALESE OFFICIALS.

(E) A WELL RECOGNIZED AUTHORITY IN THE CREDIT FIELD, IN ORDER TO ENSURE CREDIBILITY AND ~~XXXXXXX~~ REALISM TO THE PROGRAM DEVELOPED BY HIM.

3. IT IS ESTIMATED THAT THIS WORK WILL BE COMPLEMENTED IN ONE MONTH PERIOD. IF AFTER THE INITIAL REVIEW, THE CREDIT SPECIALIST RECOMMENDS LONGER DURATION FOR THE STUDY, MISSION WILLING TO CONSIDER EXTENSION OF TIME LIMIT UP TO THREE MONTHS.

4. PLEASE ADVISE THE NAME, BRIEF QUALIFICATIONS, DATE AND DURATION OF AVAILABILITY OF THE SELECTED EXPERT, FOR CLEARANCE WITH GOS BEFORE STARTING THIS CREDIT REVIEW. MISSION ANXIOUS TO START THIS STUDY ASAP AND APPRECIATES PROMPT ACTION ON THIS REQUEST.

5. ADVISE.

GALANTO

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