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UNITED STATES GOVERNMENT

memorandum

6p.

DATE: June 8, 1977

REPLY TO
ATTN OF: AFR/DR, John L. Withers

SUBJECT: AFR/Executive Committee (ECPR) Meeting on PP for Senegal
Grain Storage

TO: SEE DISTRIBUTION

The ECPR will meet at 3:30 p.m., Wednesday, June 15, 1977, in Room 6320 to consider issues and other factors bearing on clearance of the project for authorization.

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OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-108

memorandum

DATE: June 7, 1977

REPLY TO
ATTN OF: AFR/DR, John L. Withera *JLW*

SUBJECT: Issues Paper for Grain Storage PP (Senegal)

TO: The Africa Executive Committee for Project Review

I. General

The Project Committee reviewed the subject PP on May 20, 1977. The basic finding was that the project is adequately supported and should be authorized. Specific issues for ECPR consideration and observations relating to negotiations and implementation are detailed below.

II. Specific Issues

A. Project Purpose and Rationale

The choice between a security stock rationale vs. a grain stabilization rationale for the project, and implications of this choice were discussed at the review. It was noted that the PP avoids the issue in its statement of project purpose in the sense that it speaks only of increasing ONCAD's capability to store and market millet and sorghum. Emphasis on the security stock rationale, it was argued, reduces the need to show an acceptable economic or financial return to the project. On the other hand, the project is not really of a price stabilization nature. Finally, although the security stock thrust of the project and improved distribution is the principal rationale, the project will increasingly assist the small producer by providing him with an alternative market at a relatively higher price during a period - after the millet harvest - when he is most in need of cash. To more accurately reflect the basic rationale of the project, therefore, including benefits to the producer, the purpose statement should be revised.

Recommendation: The project purpose in substance should be rephrased to reflect the following: To contribute to the development of a grain storage, distribution, and marketing capability within ONCAD adequate to meet distribution and security stock needs as well as provide a viable alternative market to the producer in periods of deficit and surplus production respectively.

B. Initial Environmental Examination - Pesticides

The Initial Environmental Examination (IEE) was found lacking with respect to the use of pesticides in conformity with U.S. approved specifications. No pesticides or other chemicals will be AID-financed, but it was stressed that they still must conform to U.S. (EPA) standards, especially because AID is financing technical assistance related to pesticide usage and will specifically train 54 fumigators under the project.



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Unfortunately, the proposed new EPA guidelines on pesticide usage are still not available. In the meantime, however, interim pesticide procedures are in effect and require the use of pesticides registered with the Environmental Protection Agency for the use contemplated. A cable has been sent to RDO/Dakar asking which pesticides will be used and how usage will be monitored during implementation. With such information, the Bureau will determine whether or not the pesticide regulations are satisfied.

Recommendation: Prior to project authorization it must be determined whether the pesticides used by the GOS comply with the interim pesticide regulation presently in force. Continued compliance also must be negotiated in the grant agreement.

Finally, training and technical assistance elements of the project should be tailored to provide information and guidance with regard to proper pesticide use in accordance with the pesticide regulations and AID environmental concerns in general.

C. Technical Assistance

A technical concern was registered in the review that the long-term expatriate advisor will be occupied on technical aspects of grain storage management and will not be qualified or have time to provide necessary coverage of marketing economics, price policy and grain stabilization. Both the PP and the RDO representative, however, argued strongly that a) ONCAD simply will not accept more than one external advisor, and b) that the price policy and marketing elements of the project will be adequately covered by the long-term training plan. It was also felt that the GOS and ONCAD already sufficiently understand the key role of price policy and related decisions in light of their increasing practice of setting the official price at a level equal to or exceeding the annual mean parallel market price. Likewise, consumption subsidies have been reduced accordingly.

Recommendations: a) That one long term technician be found acceptable under the circumstances, b) that adequate attention be directed to price policy and marketing areas through appropriate long term training of the ONCAD staff agricultural economist (now incorporated in PP) and c) that AID be prepared to provide additional funding for short term technical assistance when required.

D. Life-of-Project Funding

The PP recommends life-of-project (LOP) funding based primarily on the desirability of being able to accelerate the construction schedule to allow greatly increased grain purchases by ONCAD in the event of a

bumper crop early in the project. It was argued in the PP and during the review that in the event of a good year(s) for millet production, opportunity(ies) to acquire a substantial security stock against potential drought years could be lost if AID and the GOS are not prepared to move flexibly and rapidly when presented with justifying production data based on the planned annual evaluation. The Committee was persuaded by this reasoning, but stressed the need for solid planning and control to assure that warehouses would not be built which would stand empty or be utilized for the peanut campaign.

Recommendation: Life-of- project funding at the \$4.9 million level should be authorized with the caveat that construction levels will be based - as proposed - only on thorough analysis of year-end production data and that ONCAD will be provided by the GOS with financing (and liquidity - see III. F. below) to take full advantage of surplus production during the peak buying season after the millet harvest.

E. Grant vs. Loan

Originally construction and equipment to be financed by the project were to be loan funded. The PP, however, makes a case for grant financing of the entire package based primarily on a) the fact that the project is not revenue producing and requires a substantial continuing subsidy on the part of the GOS and b) Senegal's current external public debt which was \$300 million at the end of 1975 and has been growing at the rate of 20% per annum. Servicing the debt is becoming an increasingly heavy burden and the GOS has expressed reluctance to loan financing in preliminary negotiations. On the other hand, reservations to conversion to grant financing have been expressed as AID may have difficulty meeting its FY 77 development loan floor target on an Agency-wide basis, and the required Congressional Notification may experience certain resistance.

Based solely on arguments advanced in the Project Paper and discussion in the review, the committee endorsed the recommendation for grant financing.

Recommendation: That the project be authorized for grant funding.

III. Other Areas of Concern

A. Host Country Contribution

It has been pointed out that in order to be able to legitimately count GOS grain purchases as part of the host country contribution to the project, as presently contemplated in the budget for purposes of Section 110(a), it will be necessary to expand the description of the project to

include the actual establishment of the stocks. AID's contribution to the effort will remain the storage capacity and the GOS contribution will be grain purchases. If this is done, it will be necessary to include a covenant in the agreement that the GOS will attempt to purchase the amount contemplated in the budget although it must be acknowledged that GOS capability to make such purchases will be dependent on sufficient grain production and farmer willingness to sell.

The above question arises from the fact that if, in the event of poor production, ONCAD is not able to procure grain as contemplated to fill warehouses to be constructed under the project (some \$3,678 million) that the GOS contribution might be reduced below the 25% contribution required by Section 110(a) and would fail to comply with its commitment in the grant agreement. If such were the case, the remaining GOS contribution of \$2.564 million would only be 23% of the originally estimated total cost of \$11,147 million. Assuming such a total absence of purchases over a three year period is not realistic, however. In addition the total cost would drop by the amount of the unpurchased grain and the GOS contribution would still be over 25%. Finally, in the event of poor grain production over the period, the warehouses would not be built in the first place thanks to the annual evaluation system, which would likewise reduce the cost of the project. Nevertheless, the project descriptions should be revised to reflect more explicitly the nature of the GOS contribution in compliance with Section 110(a) of the FAA.

B. Key Complementary Activities

Two technical innovations were found by the project committee to be critical to project success - the advent of a new power millet threshing machine and the development of a new, higher yielding variety of millet seed by the agricultural research station at Bambey. The threshing machine is being tested as part of the RDO's ongoing cereals production (SODEVA) project. It is urged that the project be coordinated with the GOS in such a way that maximum advantage be taken of the application of these two innovations through the technical assistance and training programs.

C. Timing of Construction - Capital Project Requirement

While this is a four-year project in terms of disbursements, Section 110(b) of the FAA requires that capital construction be completed in three years. It may not be possible to do this, however, because the timing of construction will be phased on the basis of GOS success in filling warehouses already constructed and on the basis of present and future production estimates. GC/AFR, however, has advised that each warehouse constructed may be legally viewed as a separate capital project for purposes of Section 110(b) since each is a distinct and self-contained undertaking. On this basis, there will be no

difficulty complying with the limitations of Section 110(b).

D. Phasing of Construction

The annual decision-making process with respect to the volume of warehouse construction based on evaluation should be incorporated in a separate covenant. This evaluation must balance the objective of adequate construction in the event of a "bumper" year and also assure that warehouses will not stand empty in years of low production.

E. ONCAD's Liquidity

A covenant recommended on p. 47 of the PP with respect to ONCAD's liquidity and purchasing capability for surplus millet production was accepted in principle. This is key to the success of the project and must be negotiated at the time of the grant agreement.

Clearances:

AFR/SFWA:HGray(draft)
RDO/Dakar:AFell(draft)
AFR/SFWA:JLanglois(draft)
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