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LESSONS LEARNED EVALUATION

OF THE

ECONOMIC SUPPORT FUND PROGRAM IN SENEGAL

(ESF I, II, AND III)

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LIST OF ACRONYMS

CNCAS	Caisse National de Credit Agricole du Senegal, or the National Agricultural Credit Bank of Senegal
CIP	Commodity Import Program.
CPSP	Caisse de Perequation et Stabilisation des Prix, or the Price Equalization and Stabilization Board.
ESF	Economic Support Fund
GOS	Government of Senegal.
ICS	Industries Chimiques du Senegal, the parastatal which produces fertilizer.
ISRA	Institut Senegalais de Recherches Agricoles, or the Senegelese Institute for Agricultural Research.
NAP	the New Agricultural Policy.
ONCAD	Office National de Cooperation et d'Assistance au Developpement, the now defunct parastatal responsible for the distribution of agricultural inputs.
PAAD	Program Assistance Analysis Document
PL-480	Public Law 480
RDA	Rural Development Agency.
SAED	Societe d'Amenagement et d'Exploitation des Terres du Delta, the Rural Development Agency operating in the Fleuve region.
SEIB	Societe Electronique et Industrielle du Baol, an oil crushing firm operating in Diourbel.
SODEFITEX	Societe pour le Developpement des Fibres Textiles, Senegal's cotton parastatal.
SODEVA	Societe de Developpement et de Vulgarization Agricole, the Rural Development Agency operating in the peanut basin.
SOMIVAC	Societe de la Mise en Valeur de la Casamance, the Rural Development Agency operating in the Casamance.
SONACOS	Societe Nationale de Commercialisation des Oleagineux du Senegal, Senegal's major oil crushing firm.

SONADIS	Societe Nationale de Distribution du Senegal, a major trading company with nation-wide outlets.
SONAR	Societe Nationale d Approvisionnement pour le Monde Rural, the government parastatal responsible for distribution of agricultural inputs.
STN	Societe des Terres Neuves, GOS organization to resettle farmers in East Senegal.
USAID	United States Agency for International Development.
WAMU	West African Monetary Union.

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ATTACHMENTS

PREFACE:

USAID/Senegal assembled a team of economists in October 1985 to undertake the evaluation of the first three USAID/Senegal Economic Support Fund Programs (designated as ESF I, II, and III). The team was comprised of two economists, one from the Economics Section and one from the Program Office. The evaluation was based upon an in depth review of written documentation and lengthy interviews done in November and December 1985 with:

Prosper Youm, Directeur de la Direction de la Prevision, Ministry of Finance
Abbas Ba, Directeur de la CPSP

Norman Rifkin, USAID/ADO
Jacqueline Damon, USAID/ECU
Jean Francois Damon, USAID/ADO
John Balis, USAID/ADO, and
Joel Schlesinger, USAID/FDO

Ideally more Senegalese officials should have been contacted but this was not possible given time constraints. The evaluation therefore represents views held predominatly by these selected USAID personnel.

The author would like to give special thanks to Campbell McClusky. His support, patience, and understanding were truly invaluable to me, as were his tremendous editing skills.

EXECUTIVE SUMMARY

Project Title and Number:

Economic Support Fund I (685-0262)

Economic Support Fund II (685-0278)

Economic Support Fund III (685-0287)

Project Description and Development of Problem:

USAID/Senegal's Economic Support Fund (ESF) program was designed to assist the Government of Senegal (GOS) with the structural adjustment of the Senegalese economy. It was clear by 1983 that Senegal faced an economic crisis: steep oil price hikes, several years of drought, and the collapse of groundnut and phosphate prices on the world market had undermined the Senegalese economy. Compounding these external economic pressures, GOS parastatals, which provided inadequate, costly services, were forcing the GOS deeper into debt. USAID/Senegal chose to focus the ESF program on the privatization of the agricultural sector in order to help the GOS achieve one of its own major policy objectives: food self reliance.

Purpose of the Evaluation and Evaluation Methodology:

The Mission assembled a team of economists in October 1985 to ascertain the progress of the ESF Program in Senegal. The following evaluation is the result of interviews with design team members and Senegalese officials and a review of documentation concerning these Program.

This lessons learned evaluation is divided into three areas in order to examine (a) what impact the programs are having in Senegal, (b) how ESF monies were used, and (c) whether ESF conditionality was met and implemented. The list of lessons learned and recommendations are included at the end of this executive summary; they cover the lessons learned which may apply to future ESF programs.

Findings of this Evaluation:

ESF IMPACT: There is little doubt that the ESF program brought timely, much needed economic reforms to Senegal, helping it stave off impending economic collapse. Senegal has reduced its budget deficit by an impressive 50 percent and its balance of payments deficit by 45 percent over the past two years. Statistics alone do not capture the profundity of change in Senegal which can be linked to the ESF program. The agricultural reform program adopted by the GOS is primarily the one suggested and promoted by ESF design team members in the on-going policy dialogue. ESF reforms in the agricultural sector are reducing farmer reliance on the GOS, its parastatals, and its pricing policies. These reforms are encouraging greater use of private channels for the marketing of agricultural inputs and produce, assisting the GOS in meeting its own goals outlined in Senegal's New Agricultural Policy. This privatization of agricultural services is improving economic performance by reducing the parastatal drain on the GOS budget and the banking sector. Few Senegalese or U.S. officials disagree with the direction of the reform program.

The ESF program has also affected the USAID Mission, requiring superior economic and French language skills among ESF negotiators. USAID/Senegal brought on its first full time macroeconomist and agricultural economist to assist in designing and monitoring the ESF program. The program also demanded an integration within the Mission of expertise and responsibility from officers in the Economics and Commercial Unit, Project Development Office, Agricultural Development Office, and Program Office. This integration was necessary both for formulating the ESF program and ensuring consistency within the mission of project and non-project assistance. Finally, coordination and cooperation among donors and the GOS was an important element to the success of the program. Many of the reforms could not have been realized without the commitment of all parties.

ESF MONIES: A combined total of US$30 million was dispensed with ESF I-III in an effort aimed primarily at supporting adjustment in the agricultural sector in Senegal. The funds went to repay crop credit and the cost of the national seed stock. Half the grant monies under ESF I were to be derived through the commodity import program, the other half through direct reimbursement. USAID/Senegal amended ESF I and shifted from the CIP to direct reimbursement because of (a) the need to disburse grant funds rapidly in order to assist Senegal meet its IMF standby target, (b) the ease with which Western African Monetary Union Members can obtain foreign exchange, and (c) the expense for Senegalese importers of purchasing American products through the CIP program. Cash transfers were used in all subsequent ESF grants. ESF I was also amended to shift use of the funds away from project-oriented budgetary support (construction of rural roads) to general budgetary support (reimbursement of crop credit, that is credit owed by the government and its parastatals to the banking sector for purchasing crops). Under ESF II and ESF III, monies were spent as described in their PAADs.

ESF CONDITIONALITY: All ESF I (amended), II, and III conditionality was satisfactorily met. ESF conditionality was targeted at the agricultural sector and reducing the role that the Government of Senegal (GOS) plays in agricultural production and marketing.

ESF I (amended) conditionality was aimed at the CPSP (the GOS Price Equalization and Stabilization Board) to improve its management while reducing its activities, specifically through the privatization of its purchasing and marketing roles. Extensive studies and audits of CPSP operations were undertaken to assist in this effort.

ESF II contained little conditionality per se. ESF II requested the announcement and implementation of reforms in the agricultural sector. This special covenant was a basis for the preparation of Senegal's New Industrial Policy.

ESF III focussed on reducing the role of regional rural development agencies (RDAs) in agricultural input provision and produce marketing. ESF III conditionality has been successful in promoting the privatization of the agricultural sector in Senegal.

1) The GOS signed a contract plan with SAED, the RDA operating in the Fleuve, and has contract plans pending with SOMIVAC and SODEVA, the RDAs operating in the Casamance and Peanut Basin. These contract plans will begin to disengage RDAs from input provision and direct production activities and to emphasize RDA extension services.

2) SONAR, the major distributor of agricultural inputs, and STN, a resettlement agency, were both liquidated thereby privatizing agricultural input sales and distribution.

3) Farmers have been given responsibility of maintaining their own seed stocks. SONACOS has been given the responsibility of maintaining a security seed stock.

One major conclusion of this evaluation is that the GOS has consistently endorsed and moved to implement ESF conditionality; where implementation delays have occurred, all parties have been equally responsible. The GOS, through its New Agricultural Policy, has become a key advocate of the need to reduce public sector intervention in agriculture.

Lessons Learned and Recommendations of The Evaluation:

1. USAID ESF design team members already have a wealth of information and studies which explain problems with the status quo. In subsequent ESF programs, additional analysis (economic studies, cost benefit analyses, and political analyses) is needed to select conditionality and judge the impact of proposed ESF reforms, that is, on the economic and political consequences of the program and on means of minimizing short-term disruptions which are likely to accompany the implementation of structural adjustment reforms.

2. The timing of implementation of structural adjustment reform has matched GOS ability and readiness to respond with reform measures. In future ESF programs, a master plan or PERT chart should be created which links potential reform measures to target conditions identified in studies or established with the ESF program. Pace should be made more sensitive to the economic and political consequences of conditionality.

3. Specific ESF reforms appear to support prevailing GOS and US strategies for improving agricultural production in Senegal. Design documents need to clearly define "end-of-reform" conditions, and, as much as possible, these conditions should be quantified. As an example, the documents need to identify target ranges - within a stated time-frame - for improvements in agricultural production or for the provision (in these cases by the private sector) of agricultural inputs. Once these end of reform conditions are defined, baseline data should be systematically accumulated to show progress in achieving ESF program goals and criteria established with which to judge the success of the ESF program.

4. USAID/Senegal has underway or plans to undertake a variety of projects in the agricultural sector to assist with privatization. The ESF program's overall effectiveness would be maximized with the design and timely implementation of mutually supportive project and non-project assistance.

5. USAID needs to delink the ESF program from the IMF standby targets to ensure the level of analysis required to produce a sound, well thought-out ESF program. This may require that ESF negotiations begin much earlier so as to accomplish this level of analysis well before IMF target deadlines or this may require a complete separation, delinking, of the two programs.

INTRODUCTION

ORGANIZATION:

USAID embarked on a new path of economic assistance to Senegal by instituting its first Economic Support Fund grant in August 1983. Two more grants were approved within the next year and a half. This evaluation will review the first three ESF grants authorized for Senegal by looking at progress made in structural adjustment and the lessons learned by USAID Senegal.

The evaluation of the ESF program examined the following three areas:

1. ESF IMPACT: What has been the impact of the ESF program on USAID and on Senegal? Most importantly, is compliance with USAID conditionality having a positive economic impact in Senegal and achieving a changed economic picture?

Here we need to look not only at whether conditions have been met but also whether there has been an improvement in the economy at large. This goal remains elusive because no short-term and long-term benchmarks were enunciated in the PAADs for the first three ESF programs. At the moment it is too early to comment on the overall impact of the ESF funds on the economy.

2. ESF MONIES: What happened to the ESF monies? Were they spent as intended?

The ESF grant has been used to assist the GOS meet its IMF targets through the repayment of agricultural debt accumulated through the financing of crop credit and the national seed stock. Both ESF II and III, the monies were spent as outlined in their original PAADs. The intended use of the ESF I grant was changed and the PAAD amended.

3. ESF CONDITIONALITY: Did the GOS meet the conditions for structural adjustment as agreed upon in the PAAD? Has USAID/Senegal adequately monitored GOS performance?

USAID/Senegal was able to monitor conditionality and the GOS complied with almost every clause as the detailed explanation of the ESF target areas will show. Where conditionality has not been met, responsibility rests equally with both the GOS and USAID/Senegal. The GOS has demonstrated increasing commitment to the structural adjustment process during the three year ESF program and has incorporated much of the conditionality into its official policies, in particular the New Agricultural Policy and its Economic and Financial Adjustment Program for the Medium and Long Term.

This evaluation will look at each of these three areas in turn. They will act as organizing windows through which we can evaluate the ESF program and will constitute the FINDINGS section of this evaluation. Organizational logic would suggest placing ESF IMPACT at the end of the evaluation but because it is the most important and interesting section, we have chosen to place it up front. ESF MONIES and ESF CONDITIONALITY are quite detailed but useful in explaining the evolution of Senegal's ESF program. The document will conclude with a summary of the Lessons Learned and Recommendations. ESF IMPACT will involve a discussion of the impact of the ESF program on USAID/Senegal and the entire ESF formulation process. It will then look at the impact of ESF conditionality on the Senegalese economy by discussing the pace of ESF structural adjustment and the need for criteria with which to judge the impact of the ESF program. Under ESF MONIES, we will review how ESF monies were spent in each of the three ESF grants. Most of the discussion, of necessity, will center on ESF I which saw a shift in both how local currency was generated and on what the currency was spent. ESF CONDITIONALITY will involve a lengthy discussion of the ESF target areas describing why these areas were selected and how conditionality has been implemented. Before addressing these topics, however, a brief background description of Senegal's economic problems is required.

BACKGROUND TO SENEGAL'S ECONOMIC CRISIS:

EXTERNALLY CAUSED CRISES

The economic crisis of the early 1980s which affected Senegal was a product of both external events and internal policies. The second round of OPEC price increases hurt Senegal's balance of trade situation. Senegal's oil bill rose from U.S.\$76 million for 1975 to U.S.\$240 million for 1982, a 35 percent annual increase. These price increases heightened the impact of the severe droughts of 1979/80 and 1980/81 which crippled agricultural production and further weakened Senegal's export capabilities. These drought years were followed by a bumper peanut crop in a year in which groundnut oil (as well as phosphate) prices plummeted to their lowest point in more than a decade. Export earnings as a percentage of GDP fell from 43.2 percent for 1977 to 26.4 percent for 1981.

Senegal was again hit by drought in the 1983/1984 growing season and produced a groundnut crop 37 lower than envisioned under ESF I. The picture brightened somewhat for Senegal when the United States experienced production shortfalls forcing groundnut prices up from a low of \$445/MT in March 1983 to an average of \$1,010/MT for the period December 1983 to November 1984.

INTERNALLY CAUSED CRISES

The Government of Senegal (GOS) made several moves in attempting to cope with these external problems that made short-term political sense but were unwise in the long term. The GOS decision in 1978 to forgive farmers' debts and in 1979 to raise the public sector wage bill by 36 percent were among such moves. The GOS tried to maintain consumption during this period of economic crisis by subsidizing many imports rather than attempting to cut them back. Real GDP per capita dropped 18 percent between 1977 and 1981. Senegal's current account deficit rose from 3.6 to 18 percent of GDP during the same period.

These decisions exacerbated the rapidly accumulating debt being generated largely by Senegal's parastatals. ONCAD, the monopoly supplier of inputs to farmers, amassed a debt of FCFA 140 billion which the GOS was obliged to assume with its dissolution of ONCAD in 1980. The CPSP, regional rural development agencies, and the central government also accumulated hefty deficits due in large part to general mismanagement, the growth in the size of the civil service, the nonrepayment of loans from farmers to government operated parastatals, and poor pricing policies. GOS resources, already overtaxed, floundered under the heavy burden of price stabilization, subsidization, and credit nonrepayment. The total internal arrears of the central government and parastatals amounted to FCFA 150 billion (or FCFA 20 billion more than total government revenues in the preceding fiscal year) by June 1981.

SENEGAL'S CREDIT CRISIS

Fundamental to these crises facing Senegal has been the lack of monetary liquidity in the system. The issue of credit still arises at every level of Senegal's economy and will be an ever present theme throughout this evaluation report. Traditionally, credit, be it from formal or informal sources, lubricates the system. It allows farmers to purchase inputs, wholesalers to purchase farm commodities, and retailers to purchase from wholesalers. The Government and its parastatals have absorbed so much of the available credit for their own operations and services that other sectors of the economy have been squeezed out and no longer function properly.

Senegal's parastatals have gobbled up credit to maintain seed stocks, provide inputs, purchase produce, and stabilize prices. Much of this credit has not been repaid and, at least through the banking sector, little more is available. Much of the non-reimbursement has been caused by the effects of the drought and the fall in world prices for Senegalese commodities on Senegal's ability to repay debt; much can be attributed to corruption and cheating as well. This increasingly illiquid credit system allowed these parastatals to leverage the GOS into paying inordinate subsidies in return for credit repayment essential to Senegal's meeting IMF standby targets. This of course further exacerbated GOS demands for revenue and bank credit.

INTERNATIONAL RESPONSES

The GOS faced a fiscal crunch by June 1981. It could no longer hope to continue its support of developmental parastatals and other public service institutions on which the people had come to rely. Indeed it could no longer hope to continue to pay its heavy external debt obligations. The Paris and London Clubs rescheduled payments which were to come due in 1981/82 and 1982/83. The International Monetary Fund (IMF) became the first agency to respond to Senegal's budgetary support needs by approving in August 1980 an Extended Fund Facility totalling SDR 184.4 million (FCFA 55 billion) over a three year period. The French Caisse Centrale and the World Bank also offered structural adjustment support that fall. Two years later, USAID/Senegal became involved in non-project assistance in Senegal for the first time.

THE USAID RESPONSE

Three annual U.S. Economic Support Fund grants (designated ESF I, II, and III) have been directed toward the improvement of Senegal's financial situation and the averting of a complete liquidity crisis. The ESF grants were aimed at the reimbursement of outstanding crop credit and credit used to finance the national seed stocks. ESF conditionality has promoted reforms aimed at injecting more cash into the system by restraining government demands on capital resources.

TACKLING A NEW PROGRAM: The five million dollar ESF I represented more than simply grant money donated to Senegal. It launched USAID/Senegal into the realm of structural adjustment, budgetary support, and conditionality. Having never before been involved in the policy dialogue process, USAID/Senegal opted in the first two ESF grants to allow the IMF to take the lead. Both grants held as conditions precedent or special covenants the GOS' adhering to the IMF standby program. This decision was taken in part because of USAID's confidence in and support of the direction of IMF conditionality. But it also reflected the need of the USAID ESF design team to obtain the experience and information through which they could understand the intricacies of the macroeconomic dynamic at work in Senegal and present fruitful conditionality. USAID/Senegal gained more confidence as it gained experience in the process of formulating and negotiating ESFs I-III.

BREAKING WITH THE PAST: The conditionality presented by USAID in ESF I demonstrated USAID's orientation towards project assistance. In its original form, ESF I attempted to bridge project and non-project assistance by proposing that the five million dollars be used as budgetary support in a clearly defined, project oriented way: to maintain and improve the road system in Senegal. This is not to imply that project assistance should be excluded from structural adjustment negotiations; if used, it could prove a most powerful tool. But with ESF I, support for feeder roads reflected AID's hesitancy to break with its project orientation.

USAID TAKES THE LEAD: USAID played a supportive role in ESF I and II, allowing the IMF and other donors to press for structural adjustment reforms. USAID took the lead with ESF III after having gained the knowledge, skills, and contacts to create strong and effective measures to improve Senegal's agricultural sector. Its reform program was adopted by other donors and incorporated into official GOS policy through the New Agricultural Policy and the Economic and Financial Structural Adjustment Program for the Medium and Long Term.

SENEGAL'S RESPONSE

The GOS has been a strong advocate of the structural adjustment process. President Abdou Diouf and the heads of the various Ministries have actively participated in the formulation and implementation of reform measures in Senegal. Indeed, much donor conditionality has been incorporated into official GOS policy. President Diouf's announcement of the New Agricultural Policy in April 1984 exemplified GOS support for fundamental changes in the agricultural sector. The GOS presented its Economic and Financial Adjustment Program for the Medium and Long Term to a World Bank Consultative Group meeting in Paris in December 1984. Donors welcomed the report as a signal of GOS commitment to the major agricultural reforms then under discussion, many of which were incorporated into ESF III. More recently, in February 1986, the GOS announced its New Industrial Policy in response to World Bank conditionality which aims to revitalize Senegal's ailing industrial sector. The GOS has joined the major donors in a cooperative effort to reshape Senegal's economy.

ESF IMPACT

OVERVIEW

One conclusion appears to be affirmed by all participants involved in the policy dialogue process: ESF funding is one of the most powerful tools possessed by USAID to accelerate needed change. It was heralded by all as timely, a carrot and stick policy required to prevent Senegal from experiencing impending economic collapse while urging adoption of reforms necessary to spur on its economic performance. Over the past two years Senegal has experienced a 50 percent reduction in its budget deficit and a 45 percent reduction in its balance of payments deficit, quite an accomplishment for any nation, let alone one operating under the severe constraints precipitated by the drought.

In the upcoming pages, this evaluation will take a careful look at the impact of the ESF program. It will discuss first the impact of the ESF program on USAID and on donor cooperation. Then it will turn to the impact of the ESF program on Senegal by specifically addressing two issues: the pace of structural adjustment and the need for criteria with which to judge the program.

ESF IMPACT ON USAID

BENEFITS FROM THE POLICY DIALOGUE PROCESS: The U.S.$ 30 million allocated for the first three ESF grants has clearly affected Senegal, but it has also transformed USAID/Senegal. The initial five million dollar ESF I represented more than simply grant money donated to Senegal. It embarked USAID onto a new, untried path for the Mission in Senegal, moving it away from strictly project assistance and into the realm of direct budgetary support and conditionality. It obliged the United States Government to become involved in the ongoing policy dialogue occurring between those donors already engaged in budgetary support work, specifically the French Caisse Centrale, the World Bank, and the International Monetary Fund. It acted to some degree as an ante, acknowledging U.S. interest in the policy dialogue process while forcing donors to take U.S. intentions seriously. As a result of this involvement, USAID was allowed to become privy to information held by those organizations and to become more cognizant of the depth and pervasiveness of Senegal's economic troubles. With ESF I, USAID became more macroeconomic in its orientation, viewing assistance not only in terms of its impact on sectors or groups, but also on the national economy. It was thus able to acquire a more global yet profound understanding of the intricacies of the Senegalese economy.

ECONOMIC SKILLS: Different kinds of skills were required as USAID/Senegal became more involved in the policy dialogue process. USAID found it needed individuals with a deeper understanding of the economic implications of its program. ESF conditionality requires individuals familiar with economic theory who can judge the likely impact and outcome of structural adjustment programs. Those with economic skills augmented the roles of the those with technical skills. USAID/Senegal brought on its first full time macroeconomic and agricultural economist to assist in designing and monitoring the ESF program.

LANGUAGE SKILLS: Implementation of the ESF program in Senegal intensified the need for French language capability on the part of ESF design team members in carrying out the policy dialogue process. When persuasion and diplomacy become important tools of program design and implementation, strong programs are negotiated by those who can communicate effectively with their counterparts. Money does talk, mentioned one design team member, but it cannot convince. The policy dialogue process requires that information be obtained and analyzed thoroughly and that arguments be formulated carefully. All of this requires language skill. Part of the effectiveness of USAID's policy dialogue with the GOS and other aid donors is due to the fact that the French language capabilities of the USAID ESF design team are excellent.

NEGOTIATING SKILLS: Policy dialogue is not a new process for USAID/Senegal. On-going negotiations with the GOS and other donors have been an integral part of all projects designed and implemented by USAID. The ESF program changed the magnitude of this policy dialogue process: many more actors are involved in formulating and implementing structural adjustment reforms. Each actor, representing different donors and GOS ministries, comes to the dialogue with different interests and view points. ESF team members learned how to persuade, coax, and compromise to hash out a common program, one ensuring the commitment of all. Commitment is the operative word here because not only do participants have to agree to the program as designed, they have to be committed to its implementation. ESF design team members gave the IMF the lead in negotiating ESF I and II. With ESF III the ESF team became the impetus for policy reform in Senegal, proposing and negotiating conditionality adopted by all major donors and incorporated by the GOS in its New Agricultural Policy. ESF team members have demonstrated their capabilities as effective negotiators both in designing and implementing structural adjustment reform in Senegal.

INTEGRATING SKILLS: Formulating ESF policy places more pressure on the Mission because it requires a significant degree of horizontal as well as vertical integration and cooperation. The policy dialogue process has involved the Economics and Commercial Unit, the Project Development Office, the Agriculture Development Office, and the Program Office within USAID/Senegal. The first three ESF grants have focussed on agricultural reform, but as the conditionality expands to incorporate other sectors of the economy, USAID can expect to have a greater variety of expertise involved in the program. The large number of conditions and covenants may come to overtax USAID Mission resources, making it difficult for USAID personnel to adequately formulate, implement, and monitor the ESF program.

MONITORING THE ESF PROGRAM: The pervasive nature of the ESF Program also makes monitoring difficult and has led, within the mission, to a decentralization of responsibility by expertise. Unfortunately, most of those individuals most intimately involved with the ESF program in the mission will have left by the summer of 1986 and it is very likely that the institutional memory of the program will go with them. The ESF program has been effectively monitored but few written records on this monitoring have been kept.

MAKING PROFOUND CHANGES IN SENEGAL: USAID is making profound changes in Senegal. The agricultural reform agenda adopted by the GOS is in fact an American agenda, proposed and promoted by the ESF III design team. Beyond this, American participation in Senegal's structural adjustment program has demonstrated U. S. interest in Senegal's future and economic well-being. By combining project and non-project assistance, USAID is showing the capability of effecting both microeconomic and macroeconomic change. Working well with both other donors and GOS officials, USAID has helped to instill a spirit of cooperation and respect into the policy dialogue. USAID has learned to use conditionality effectively as a tool for profound structural change.

ESF IMPACT ON DONOR COOPERATION

DEVELOPING CLOSE TIES AMONG DONORS: The importance of donor cooperation in Senegal was first discussed officially by USAID/Senegal in its CDSS for fiscal year 1983 (published in January 1981) when it recommended the establishment of a Consultative Group, composed of the principal donors and led by the World Bank, to more carefully coordinate donor reform and project efforts in Senegal. The suggestion was timely because of the growing sense of frustration donors were feeling over the status of Senegal's economy. It was also pragmatic: all donors recognized that requiring the GOS to adhere to a structural adjustment program might prove politically difficult for any one donor. Working together would "relieve" this pressure. The suggestion was adopted because of a human element; individuals involved in the donor agencies believed that in acting together they could improve Senegal's economy.

COOPERATION AND THE ESF PROGRAM: The pervasive nature of conditionality has made donor cooperation essential to the implementation and success of each donor's structural adjustment program. Donor cooperation and coordination were exceptional over the first three ESF grants. This in part was due to USAID's inclusion of IMF conditionality in ESF I and II. But with ESF III, it was predominantly the USAID design team which formulated the conditionality supported by all structural adjustment donors to improve the performance of the agricultural sector.

THE COST OF COOPERATION FOR USAID: The high level of coordination among donors and the GOS has extracted a cost: it has placed enormous time constraints on the negotiating, approval, and disbursement processes. In each of the three ESF programs, the monies had to arrive in time for IMF standby target deadlines. This link with the IMF and the debt rescheduling cycles imposes a burden on the AID bureaucracy which it is not designed to accommodate. USAID is a slow bureaucracy and as a result of the rush required by the ESF program, implications of the program have not always been seen or analyzed.

TOO MUCH COOPERATION?: It was generally agreed by all members of the ESF design team that the level of cooperation among donors was important in persuading the GOS to dissolve several parastatals. Many wondered whether any single donor would have had the leverage to force these crucial changes. However, several design team members cautioned that, although donor cooperation is important, donor concertation should be avoided. Donors fear offering overwhelming or conflicting conditionality and so prefer to act together, but this can quickly deteriorate into donors coercing rather than negotiating GOS acceptance of conditionality.

PROSPECTS FOR THE FUTURE: A delicate balance has thus far been maintained. Donors have easily agreed these past three years upon the thrust of exigent policy reform, emphasizing the reduction of GOS budget and debt. However, as the structural adjustment program has entered a new phase, that of creating new institutions to provide services cut by past conditionality, differences among donors appear to be arising. It appears easier to agree on the need to tear down a system than on what form the new system should take. Another possible consequence of donor cooperation or concertation, warned a GOS official, is donor satiation of one sector and starvation of others. This may not be a problem in coming years as donors appear to be carving out their own spheres of specialization within the host economy while remaining committed to donor cooperation.

THE PACE OF STRUCTURAL ADJUSTMENT:

REORIENTING AN ECONOMY

THE GOS AS PROVIDER: Senegal has been, since independence, an African socialist state even though it has been characterized as a "nonaligned, moderate, functioning democracy." Farmers have developed a reliance on the government because of this orientation. They have become accustomed to obtaining inputs and credit through the state. ONCAD and then SONAR were charged by the GOS to act as parastatal wholesalers of seed and fertilizer; the RDAs acted as retailers to farmers. When farmers could not pay for these supplies, the RDAs provided them on credit, which the farmers tacitly understood need not be repaid. No punishment would be exacted, or indeed could be. There is little available collateral in a socialist state in which farmers do not possess deeds to their land. The retained earnings system was established to bypass this problem of credit nonrepayment by forcing farmers to pay for next year's supplies with proceeds from this year's harvest. The GOS acted as the ultimate bailout for the farmer. When prices or production fell, the GOS used the CPSP or debt forgiveness as a defacto means of crop and therefore income insurance.

ESF HELPS DISMANTLE A PARASTATAL SYSTEM: ESF conditionality was a prime catalyst in sparking reform of a number of clearly inefficient and expensive state services which were threatening to bankrupt the state. During the past several years, donors have pushed the GOS to tear its parastatal system apart. ONCAD and then SONAR have been dissolved. The input provision activities of the RDAs have been significantly curtailed. The retained earning system has been abolished. The maintenance of the seed stock has been placed in farmers' hands. Fertilizer marketing is being privatized. Credit is not widely available. However, in the eagerness to rid Senegal of its parastatal institutions, the implications of ESF conditionality on agricultural production have only been partially thought through.

SHORTCOMINGS OF ESF PLANNING

USAID ESF design team members had a wealth of information, studies, statistics, and expertise on the agricultural sector which indicated that GOS parastatals were stifling and discouraging agricultural production while draining significant funds from the GOS treasury and Senegalese banks. It was quite natural for USAID and other donors to focus their attention on the CPSP and RDAs in order to improve efficiency and production in the agricultural sector.

SUFFICIENT GROUNDWORK?: Several ESF design team members questioned whether the groundwork was sufficiently laid for the privatization of agriculture. A Hirschmanian view of unbalanced growth strongly suggests that in the long run the private sector will fill the vacuum left by the departure of the GOS from the agricultural sector. USAID lacked vital information it needed to determine the short-term impact of the structural adjustment program it is supporting. It did not know, for example, what type of storage facilities existed on the local level for seed storage; whether entrepreneurs existed to take over input distribution; or how lack of credit would affect farm production. Nor did it know whether sufficient human resources, be they trained individuals or individuals imbued with an entrepreneurial spirit, existed in the private sector to take the risks and supply the services required to make the agricultural sector function. Capitalist economic theory dictates that privatization will improve the performance of the agricultural sector in the long term, but USAID did not have the studies or surveys to indicate the impact of ESF-stimulated reforms on agricultural output and marketing in the short term.

In the upcoming paragraphs we will explore the kinds of additional studies USAID/Senegal should consider performing to improve the impact of its ESF program. These studies were not performed in the past because 1) USAID/Senegal has itself been going through a learning process, discovering what kind of groundwork is required by structural adjustment assistance and 2) the ESF program was operating under severe time constraints imposed by IMF standby target deadlines.

MORE ECONOMIC IMPACT STUDIES: In the writing of future ESF grants, USAID/Senegal needs to shore up its knowledge of the status quo with in depth analysis of the economic impact of its proposed conditionality. This analysis should look at both short-term and long-term, positive and negative consequences of the program and on means of minimizing short-term disruptions which are likely to accompany the implementation of structural reforms.

WEIGHING BENEFITS AND COSTS: Subsequent ESF grants should perform cost-benefit analyses or undertake a general assessment of costs and benefits on proposed conditionality to assist in selecting conditionality and underscoring the costs as well as the benefits to the ESF program. It is interesting to note that in none of these ESF PAADs is there a discussion weighing the benefits of anticipated reforms against the costs emanating from adverse impact of those speedy reforms. Nor is there a mention of a possible fall in agricultural production and its effects on Senegal's balance of payments.

STUDYING THE PACE OF STRUCTURAL ADJUSTMENT: Subsequent ESF programs need to study more deeply the pace of its structural adjustment program. From the written documentation, USAID appears not to have explored the pace of its structural adjustment program to ascertain whether it might not be proceeding too quickly; but several USAID ESF design team members stated that they believed this to be the case. The timing of implementation of structural adjustment reform has matched GOS ability and readiness to respond with reform measures. It is perhaps regrettable that the structural adjustment process could not have been spread out over a few more years. It is regrettable that the fiscal urgencies identified by the IMF, the World Bank, the Senegalese leadership, and others, could not have allowed the GOS and donors alike to make more adequate preparation for the privatization of agriculture or why certain institutions, such as the retained earnings system, were abolished overnight rather than altered, improved, or slowly phased out in an effort to mitigate the abruptness of change imposed on local farmers from the central bureaucracy. This is not to argue with the prevailing assumption that the Senegalese economy was, and remains, bordering on disaster; but it is said to question whether the assumption that "the GOS has no choice but to tear down the system immediately" was or remains valid.

POLITICAL IMPLICATIONS: Future ESF programs need to analyze the political implications of the changes being effected. Powerful interest groups in Senegal, most notably the Marabout and the urban educated elite, may feel that their power bases are threatened. How they respond almost certainly will have serious implications for the stability of the national government and the probability of donor conditionality having its desired effect. It would be an irony of the program if, in USAID's desire to improve Senegal's economy, that economy was unable to so improve because of the political repercussions of one or another or a combination of conditionality.

STUDYING THE CPSP: It is important to note that the CPSP has been extensively studied. Donors have funded and are continuing to fund audits and technical experts to examine reduction and elimination of various of CPSP functions. The CPSP has been the focal point of so much discussion and activity that much of the groundwork for the privatization of rice and groundnuts has been laid and the transition should proceed orderly.

DIVERGENT OPINIONS ON ESF IMPACT: There is great divergence of opinion within USAID itself on what the eventual impact of the ESF program, and all structural adjustment programs, will be in Senegal. Some USAID experts believe that conditions approaching anarchy may develop while others believe that whatever disruption develops over the next few years will be light. All those interviewed for this evaluation were generally agreed that agricultural production, other variables remaining equal, would fall in the short term as a symptom of (a) the sluggish character of the formal private sector in this traditionally socialist environment, (b) the general lack of credit, and (c) the possibility of the GOS reversing its position on privatization.

IMPROVING THE IMPACT OF THE ESF PROGRAM

SLOWING THE PACE: There appears to be a general consensus among the USAID personnel interviewed that the process of structural change needs to be consolidated and that donors need time to adjust and react to changes in the political and economic environment in Senegal. This thinking represents part of the reason for USAID/Senegal's desire for a three year/three tranche ESF. It reflects a recognition that as donors delve more deeply into macroeconomic problems, they find new, at times more fundamental problems. When USAID began the process of conditionality in support of major structural changes, few donors realized the extent of parastatal mismanagement or of the liquidity crisis. The implementation of conditionality foments new problems as well. A multi-year ESF program should allow USAID to project and analyze consequences more thoroughly. Intuitively, one imagines that it would also make adjustment easier, allowing the host government and donors time to better persuade and prepare those affected. However, political reality appears to suggest that the momentum of both the IMF and U.S. programs in support of structural adjustment reforms in Senegal will continue to proceed apace, targeting new reforms before the current and past ones have been assessed.

COORDINATING PROJECT AND NON-PROJECT ASSISTANCE: One possible means within USAID of ameliorating both present and future disruption is through closer coordination of project and non-project efforts. The infrastructure of many local formal and informal institutions may prove inadequate to fully implement or exploit the reforms outlined in ESF conditionality. The ESF program provides a mechanism to initiate structural change and offset some of the more costly effects, but it cannot deal with the human and technical dimensions of the reforms adopted. Project assistance can. Project assistance can be used to upgrade institutions and human resources to assume some of what were previously governmental functions. Businessmen can be trained, farmers can be taught numerals and simple bookkeeping. Complementing structural or policy reforms with technical assistance - integrating project and non-project assistance - might prove extremely helpful even though it might be inappropriate to articulate project assistance explicitly within the program.

THE NEED FOR EVALUATION CRITERIA

THE NEED TO DEFINE A VISION: Evaluation of the effects of ESF grants requires a clearly stated vision, or end-of-reform conditions, outlining the desired impact of ESF conditionality and the existence of baseline data against which to measure or confirm the results achieved. Confirming the timely transfer of funds and the satisfaction of conditionality are not in themselves sufficient to measure whether the ESF support has been well spent. Some objective measurable criteria need to exist against which an evaluator may be expected to gauge whether the support program has contributed toward targeted performance changes in the economy or not. It should not merely state that the means of achieving change, the conditions, have been satisfied; but that the end, a changed economic picture, is being achieved.

CREATING AN IDEAL EVALUATION

EVALUATING THE IMPACT OF GRANT MONIES: A complete evaluation of these programs is not only interested in the transfer of the $US 30 million ESF grant per se. If that were so, then it would be sufficient to ascertain whether, as a result of repaid crop credit and credit for the seed stock, more liquidity exists. No; it is necessary to try to go further, to ascertain whether more credit has been made available for enterprises and the purchase of agricultural produce and inputs or whether, as appears to be the case, most of the credit has been diverted to offset other governmental requirements. This evaluation was not equipped to do this, but this could be done as part of ongoing and planned U.S. supported studies such as the current banking sector study. The $US 30 million was not the heart of the ESF program but the means to support and facilitate certain intermediate steps agreed upon by the GOS to adjust its economy and achieve measurable performance changes. It was the carrot used to persuade Senegal to carry out structural adjustment of its economy.

EVALUATING THE IMPACT OF CONDITIONS: Such a full evaluation would go beyond ascertaining whether or not the conditions as set forth, the means to achieving change, have been satisfied and whether they are appropriate to Senegal's needs. This evaluation has attempted to show that conditionality, as stated, has been satisfied and that it has been by and large appropriate to Senegal's economic crisis. It is the conclusion of this evaluation that the GOS has shown a strong commitment and willingness to cooperate with donors and by and large has complied with the conditions and covenants outlined in the various structural adjustment packages. Indeed, the GOS has incorporated the spirit of the ESF program into its New Agricultural Policy. Slippage appears to have been in the form of delays in implementation which can be attributed as often to donor behavior as to GOS hesitancy. It is the conclusion of this evaluation that the GOS has met the conditions precedent and most of the special covenants of ESF I, II, and III.

EVALUATING THE CHANGED ECONOMIC PICTURE: A full evaluation, including an examination of the changed economic picture, of the impact of ESF conditionality on the Senegalese economy would perforce require a clearly defined vision of the Senegalese economy with clearly defined end-of-reform conditions sought by the ESF program in order to determine whether that targeted performance changes have been identified and appropriately launched. Such a vision has yet to be developed. One GOS official described the goal of structural adjustment in general terms as one of restoring equilibrium to public finances and the balance of payments situation in order to bring about satisfactory growth and good fortune to Senegal's ailing economy. Few would argue with this general desire. But what are the performance changes targeted by the ESF program? Using LogFrame concepts, if conditionality is the input, and policy change the output, then what are the "end-of-project" (in this case, end-of-reform) status indicators? It might be argued that the EOPS in part have been (1) improved agricultural sector performance as indicated by more efficient input distribution and commodity marketing; (2) improved bank liquidity as indicated by increasing number of farmers assisted in financing their agricultural production; and (3) a reduction in burdensome regulation and institutions as indicated by deregulation and reduced staffs and budgets of these kinds of institutions within the agricultural sector where they have been most prevalent. These have not been explicitly stated in the ESF documentation and are offered here in lieu of formal pragmatic declarations. Even if we accept these, the causal link between satisfaction of ESF conditionality and achievement of these targets, declared or not, is not clear.

IMPROVING THE ABILITY TO EVALUATE

SEARCHING FOR AN ECONOMIC VISION AND CAUSAL LINKS: This discussion is not presented to reiterate the previous argument. Rather, it is said to underscore the need for a careful evaluation of the impact of the ESF support program precisely because the causal link between ESF conditionality and undefined performance targets is not clear and has not been carefully analyzed. Donors and the GOS are entirely reorganizing the most important sector of Senegal's economy: agriculture. USAID needs to develop probable scenarios of the impact of conditionality on the Senegalese economy and the agricultural sector as part of USAID's support program. This would help us achieve our ideal "full evaluation" by allowing us to judging whether individuals within USAID and the donor community at large agree on what form the economy should take or whether support efforts are still on track - because we would define where the track is leading us.

THE NEED FOR BASELINE DATA: Without a defined vision, end-of-reform conditions, and a track laid out to obtain them, specific baseline data were not gathered with which to judge the effectiveness of the ESF program. Steps should be taken to determine whether data appropriate for baseline purposes already exist. If the ESF program of privatization is working, then USAID should see increases in the volume of seed and fertilizer distributed and used, improvement in the quality of seed used, greater profitability of farms, and individual and overall production increases over time. It is not clear whether data appropriate for baseline use are available. The best data may be found in U.S. supported Agricultural Research and Planning Project (685-0223) under activities of the University of Michigan contract team, though their data were accumulated, in part, after the process of structural adjustment began. Some possibly relevant statistics are also available from the Ministry of Rural Development. What makes the task of evaluation particularly difficult in the case of the agricultural sector is the reality that the most potent force presently influencing agricultural production, the weather, rests entirely outside the control of ESF conditionality.

IS ESF A SUCCESSFUL PROGRAM?

In evaluating the first three ESF grants to Senegal, it can easily be said that the funds were transferred in a timely manner, the conditions were satisfied, and significant changes have occurred in the economy as a result of government decontrol of the agricultural sector. What we cannot say is whether the ESF program has been a success. This suggests two difficulties:

1) How does USAID know it is using its monetary resources in an optimal, efficient manner? If it cannot be certain of impact, if it can in no way guess at the magnitude of this impact, then how does it judge whether or not the funds might not have been better used in another way, with either different conditionality, a different project/non-project mix, or perhaps a return to straightforward project assistance. How can USAID ever know it is helping the GOS achieve its defined goals in the quickest, most efficacious manner?

2) How does one learn lessons? Is it possible to learn from the experience of authoring conditionality if the desired effects are never explicitly stated, if possible scenarios are not worked out, if possible pitfalls are not foreseen, and if contingencies are never thought out?

Given that USAID and the U. S. government has just embarked on a long-term structural adjustment program in Senegal involving an additional $US45 million, it would be helpful to USAID to establish some type of criteria for judging the success of the program.

ESF MONIES

OVERVIEW:

This section will focus on the ESF monies: how they were generated and then targeted. It will present a brief overview of the conditionality attached to each grant. Most of the discussion will center on ESF I which was ultimately amended to better deal with Senegal's non-project assistance needs and its special situation as a member of the West African Monetary Union. The section will then follow with a brief discussion on ESF I (Amended), ESF II, and ESF III.

ESF I:

The original intent of ESF I as signed in August 1983 was to assist the GOS with its balance of payments requirements and, with the local currency generated ($2.5 million through the commodity import program and $2.5 million through direct reimbursement for imports from the U.S.), to maintain and upgrade rural feeder roads. Several facets of this program immediately went off track.

THE SHIFT FROM RURAL ROADS TO CROP REIMBURSEMENT

CAUSE OF THE SHIFT: The original ESF I target of budgetary support evaporated when the Ministries of Public Works and of Plan and Cooperation eliminated rural road maintenance from the Road Fund Program and thus from the GOS budget. Such assistance would no longer constitute budgetary support but support for items in addition to the budget. It therefore did not achieve one goal of the ESF I program, that of meeting priority expenditures compatible with the IMF stabilization program. Furthermore, the World Bank's decision to redesign its Fifth Highway Project and increase its contribution to the GOS Road Fund Program during the first two years of its project implementation meant that USAID funds would not be needed until the third and forth years, a significant delay. Because of this delay and redesign of the World Bank's Highway Project, World Bank and USAID activities in the rural sector no longer acted as complements. When President Abdou Diouf was asked whether he preferred the five million dollars be earmarked for budgetary support or rural road maintenance, he emphatically supported the former.

CHOOSING CROP CREDIT REIMBURSEMENT: USAID decided in its February 1984 amendment to ESF I that the monies were most urgently needed, in concert with other donor (IMF and the Caisse Centrale), to support a coordinated effort to finance the reimbursement of outstanding crop credit owed by the CPSP (the Price Equalization and Stabilization Board) to the national banks for peanut purchases during the 1981/82 and 1982/83 growing seasons. This allocation was consistent with the then recently finalized

ESF II, signed in December 1983, which disbursed a $10 million ESF cash transfer to help the GOS meet IMF performance criteria with respect to the reimbursement of outstanding crop credit.

ADDING LIQUIDITY TO THE BANKING SECTOR: The economic justification for this ESF I amendment brought up issues which would arise many times in the ongoing policy dialogue over conditionality. First, reimbursement of the outstanding crop credit would add liquidity to the banking sector in desperate need of capital. The banking sector lacked liquidity due to a combination of past abuses of the credit system and IMF policy of restricting credit as a means of containing monetary expansion. Yet the health of the banking and agricultural sectors are integrally linked, a theme basic to the ESF program in Senegal. Without a healthy banking sector, farm inputs and farm produce cannot be purchased on credit and if they cannot be purchased on credit, they often cannot be purchased at all. Agriculture in Senegal, like agriculture throughout the world, runs on credit. By assisting with the reimbursement of seasonal crop credit, AID hoped to augment the volume of credit available for private sector activities while improving the prospects for continued agricultural lending.

MAINTAINING THE CPSP: Reimbursement of seasonal crop credit was also vital to the continued viability of the CPSP. The CPSP's function is to protect farmers against the wide fluctuations in prices of Senegal's export crops, particularly peanuts and peanut oil. This is accomplished through a complicated procedure in which the GOS sets official crop prices and, through the CPSP, subsidizes the oil crushing firms to ensure that the official prices are honored. In 1981/82 and 1982/83 oil crushing firms did not receive their compensation from the CPSP and so did not reimburse their crop credit. The CPSP agreed to assume a proportion of these obligations to Senegalese commercial banks equivalent to the amount of the compensation. This exchange simply made the CPSP's unstable financial position more precarious. In hopes of alleviating CPSP's financial difficulties, USAID proposed that the funds be used for the direct reimbursement of crop credit.

THE SHIFT FROM THE COMMODITY IMPORT PROGRAM TO DIRECT REIMBURSEMENT

Local currency amounting to the equivalent of U.S.$ 2.5 million was to be generated through the commodity import program (CIP) under the original ESF I. It soon became clear that this mechanism was too cumbersome as well as being ill-adapted to members of the West African Monetary Union.

MEETING AN IMF DEADLINE: Senegal had to reimburse all of its outstanding crop credit for 1981/82 and 1982/83 by June 1984 according to IMF standby criteria. USAID hoped to assist Senegal meet this performance criteria but to do so the local currency had to be available by this deadline. USAID estimated, however the first $625,000 would be available through the CIP no sooner than September 1984 and the remaining $1.875

million not before March 1985. Importers were required to deposit 25 percent of the dollar value of the letter of credit in local currency initially but the remaining 75 percent did not have to be deposited until six months after receipt of shipping documents. This delay was designed to provide an incentive for importers to comply with the cumbersome and complicated documentation requirements and to offset the added expense of shipping a substantial part of the commodities on U.S. flag ships. It had the adverse effect, however, of precluding the generation of enough currency to help the GOS meet its performance criteria. The CIP proved too slow in generating local currency.

REQUIRING AMERICAN IMPORTS: Most U.S. commodities are exceedingly expensive from Senegal's point of view, particularly because of the distance they must be transported and the requirement under the CIP that 50 percent of the commodities be transported with U.S. flag ships. Senegalese importers prefer cheaper non-American sources. Given Senegal's balance of trade and payment deficits, it did not seem appropriate to require that the $2.5 million be in addition to current levels of U.S. imports.

MEMBERSHIP IN THE WEST AFRICAN MONETARY UNION: Finally, the CIP mechanism is not well adapted to members of the West African Monetary Union which can freely convert their currency between the FCFA and the French Franc. Senegal's access to foreign exchange for imports is therefore not dependent on its foreign exchange earnings but on the rate of growth of its own domestic money supply. If an importer can obtain FCFA bank credit, then he is virtually assured of gaining the necessary foreign exchange through the French Treasury regardless of Senegal's net foreign exchange position. There was little reason for Senegalese importers to use the CIP program given the excessive cost of U.S. imports and the unwieldy CIP documentation requirements.

THE SHIFT TO CASH TRANSFERS: USAID therefore concluded that it would be more expeditious to use the direct reimbursement mechanism for the entire $5 million and abandoned the $2.5 million commodity import program. Cash transfers were used in all subsequent ESF grants for this same reason.

ESF I, AMENDED:

THE GRANT: ESF I, as amended in February 1984, targeted the $5 million in local currency obtained through direct reimbursement of imported U.S. goods toward the repayment of outstanding crop credit. Senegalese banks (the BNDS in particular) had incurred an $80 million debt to finance purchases of peanuts produced in the 1981/1982 and 1982/1983 growing seasons. This shift in local currency use coordinated well with the intentions of other donors who had come to understand the role that unrepaid crop credit was playing in Senegal's economic crisis.

THE CONDITIONALITY: As USAID became more involved in the ongoing policy dialogue, it became aware that Senegal's crop credit problems ran deep, but that little factual information existed to ascertain how deep. Therefore, in shifting its concern from road maintenance to crop credit repayment, USAID focussed its attention on the CPSP and presented methods of studying and ameliorating the precarious position of the CPSP as conditionality and covenants. Specifically, USAID required the undertaking of an audit of CPSP accounts and a commitment to begin producing accurate quarterly accounts by sector. CPSP was asked to accept the hiring of outside technical experts to further improve the financial management of the parastatal. The amended ESF suspended all credit sales of PL-480 commodities and commenced an examination of the possible reduction of CPSP activities to help ameliorate the credit burden facing the CPSP, possible reductions focussing on the elimination of its rice purchasing and marketing roles.

ESF II:

THE GRANT: ESF II, signed 17 December 1983, is perhaps best described by the term "quick fix." The main purpose of this ESF was to help Senegal meet an IMF standby target deadline and to express U.S. support for the economic reforms undertaken by Senegal. It constituted a $10 million cash transfer aimed at assisting the GOS comply with a 31 December 1983 deadline for the reimbursement of outstanding seasonal crop credit to Senegalese banks. The GOS lacked $62.5 million at the time of the signing of ESF II. The French Caisse Centrale had agreed to finance $22.5 million, Oman $15 million, and the remainder was to come from GOS budget cuts and credit ceiling adjustments. A secondary justification for the grant followed from the need to recapitalize the banking sector in order to pay farmers in cash for their crops normally harvested and sold in December.

THE CONDITIONALITY: Little conditionality was included in ESF II because of the strict deadline imposed by the IMF; USAID requested compliance with IMF standby and, most importantly, an agreement to implement reforms in the agricultural sector as special covenants. ESF II conditionality resulted in the GOS preparing and announcing its New Agricultural Policy in April 1984. The fact that the GOS was able to satisfy the standby criteria set forth by the IMF was in itself quite an impressive accomplishment: Senegal had again suffered the effects of severe drought in 1983/84. In March 1985, the GOS fully reimbursed all of its outstanding crop credit for the first time since 1978.

ESF III:

THE GRANT: ESF III authorized a $15 million cash transfer to Senegal to meet a 31 December 1984 IMF standby target deadline for reimbursement of costs incurred to the BCEAO (the Central Bank) for financing the national peanut seed stock used in that year's peanut campaign. The IMF would have reclassified this loan after 31 December as ordinary credit, that is credit which carries a higher rate of interest and consequently would have reduced the amount of new credit available to the private sector. Such a reduction would have limited those finances available for the 1985 seed stock thus jeopardizing Senegal's peanut campaign, and reducing Senegal's export capacity the following year.

THE CONDITIONALITY: USAID took the lead with ESF III in proposing and promoting conditionality that encouraged reform of the agricultural sector. The thrust of the conditionality offered by the United States in ESF III was adopted by all the donors in a concerted effort to improve the performance of the agricultural sector and regional rural development agencies in particular. The ESF grant had two goals: 1) the repayment of credit given for the national peanut seed stock and 2) the encouragement of privatization of the agricultural sector. ESF III sought to dismantle Senegal's inefficient, burdensome agricultural parastatal system and can be characterized as an attempt to tear down rather than build up GOS agricultural institutions.

ESF CONDITIONALITY

OVERVIEW:

In amending ESF I, USAID began including conditionality into its ESF program aimed at the structural adjustment of the Senegalese economy. USAID became a major participant in the ongoing policy dialogue on structural adjustment taking place among Senegal's donors. Rather than attempting to examine the conditionality within the context of each ESF grant, this discussion will have a topical approach and will deal with major areas of conditionality over the three ESF grants. This approach should prove clearer than a chronological presentation where direction is often lost in detail. It is important to look at the reforms as a continuum, not artificially divided by the signing of the ESF documents. This underscores another difficulty in attempting to judge the impact of any single ESF grant or conditionality. Subsequent structural adjustment programs obscure the changes wrought by previous conditionality. Much of the impact of the conditionality selected for the first three grants will depend upon the choice and focus of follow-on conditionality.

The conditions and covenants presented in all three ESF grants focussed on reform of the agricultural sector. Because they inevitably fell into a one-year time frame due to U.S. Congressional budgetary constraints, in form and in substance they acted as short-term means of forcing change, always needed but not always well formulated. ESF design team members hoped to break away from the budget cycle with ESF III by requesting a multi-year ESF program. AID/Washington agreed with this proposal with ESF IV.

ESF conditionality centered on the reform of the CPSP. This discussion of conditionality therefore begins with an analysis of the CPSP.

CPSP:

ESF I (amended): conditions precedents:

1. Suspend all credit sales of PL-480 commodities;
2. Accept the principle of hiring outside technical assistance to reinforce CPSP management and establish an acceptable date by which technical experts will be recruited; and
3. Undertake audit of CPSP accounts.

ESF I (amended): special covenants:

1. Examine the possibility of reducing the CPSP's activities and of simplifying or eliminating the purchasing and marketing roles of the CPSP; and
2. Require the CPSP to produce clear accounts of its overall situation by quárter and according to its various sectors of intervention.

ESF III: special covenant:

Completion of diagnostic study of CPSP and recruitment of external assistance to strengthen finance and management along with the development of an action plan for reorganizing the CPSP.

OVERVIEW

USAID INTEREST: USAID became interested in the CPSP as a result of its concern for agriculture and the realization that the CPSP was a major source of drain on GOS finances. As USAID became more involved in studying the CPSP through financial audits, it became clearer that its earlier means of redressing CPSP mismanagement (through cutting of PL-480 credit sales and promoting the use of technical experts) would not be enough - that CPSP mismanagement was as much a product of the size and pervasiveness of its institution as of lack of skill or opportunities for corruption. USAID ultimately came to support a policy of privatization of CPSP marketing functions.

ORGANIZATION: This discussion will look first at sources of CPSP indebtedness. It will then turn to USAID and GOS responses to the this mounting debt and the final decision to dismantle the CPSP.

CROP CREDIT AND THE CPSP

CROP CREDIT AND THE OIL CRUSHING FIRMS: Under the rules of the West African Monetary Union, the Central Bank gives a preferential discount rate on loans to commercial banks for the short-term financing of commercial crops. These funds were made available to SONACOS and SEIB, the Senegalese peanut oil crushing firms, and SODEFITEX, the Senegalese cotton parastatal. Each October the GOS estimated required crop credit based upon preliminary production estimates for cotton and peanuts. The short-term credit was supposed to be used for the purchase of peanuts and cotton so that farmers could be paid promptly in cash for their crops, but in reality the credit was used by the oil crushing firms as a form of cheap capital rather than as an advance for peanut purchases. This money was to be repaid, in theory, within a twelve month period, as soon as the cotton and processed oil were sold on the international market.

THE CPSP AS PRICE GUARANTOR: The CPSP is not normally involved in crop credit. The function of the CPSP has been to stabilize farm revenue through a complicated procedure in which the GOS establishes farmgate prices which the oil crushing firms must honor. The CPSP in return guarantees these firms a margin above their operating costs. If the international price for peanut oil rose above this level, CPSP collected the profit generated by the oil crushing firms. If it fell below, the CPSP compensated the firms for their losses. These payments were to be financed through receipts produced from the proceeds of the other export crops or on imported consumer goods. Unfortunately, CPSP receipts during the early 1980s could not cover the costs of their compensatory payments to the oil crushing firms. The massive debt accumulated by the CPSP has resulted from a confluence of poor management, poor weather, and poor GOS pricing policies.

CPSP INVOLVEMENT IN CROP CREDIT: The CPSP became inextricably involved in Senegalese crop credit problems when, in the early 1980's, the international price for peanut oil plummeted to such an extent that the CPSP was unable to compensate the oil crushing firms for their losses. SONACOS and SEIB in turn felt no obligation to repay their loans to the Senegalese banks for their short-term crop credit garnered through the West African Monetary Union. Instead, the CPSP agreed to assume part of the crop credit owed by these firms to Senegalese commercial banks equivalent to the amount of the owed compensation. This credit was reclassified as normal credit and thus began to crowd out private borrowing. It also then fell under IMF standby criteria. This chain of events helped to undermine the CPSP, Senegal's credit system, and the liquidity of the banking sector.

OTHER SOURCES OF CPSP INDEBTEDNESS

PL-480: The sale on credit of PL-480 commodities, particularly rice, was another major source of CPSP debt. The CPSP selected the wholesalers who received the commodities on credit based not upon their likelihood of repaying the credit but on other, apparently political, grounds. Research disclosed that some traders apparently gave substantial bribes to GOS officials to obtain their quota which permitted the wholesaling of rice. These allegations emerged from informal interviews conducted for ISRA by a U.S.-supported research team from the University of Michigan with traders, CPSP representatives, and agents of the Controle Economique (discussed in "The Official Market for Cereals in the Senegal River Valley," August 1985). The research team further found that political figures and religious leaders sometimes illegally "rented" their quotas to unofficial traders. It also appears that the granting of this quota has been used as a means of providing political patronage to both political and religious interest groups. The CPSP had recuperated by the spring of 1984 only FCFA 26 million of approximately FCFA 985 million in outstanding crop credit sales. (Recent CPSP performance in this matter has improved.) PL-480 commodity sales on credit were stopped with ESF I. USAID and the World Bank have pushed for the privatization of CPSP rice marketing to alleviate the problem and "depoliticize" rice sales in general.

UNREALISTIC PRICING POLICIES: A further source of CPSP indebtedness sprang from the inability of the GOS to formulate a realistic pricing policy. The GOS agricultural commodity pricing policy exists, in theory, to protect farmer income while making commodity processing economically viable and providing food cheaply for food purchasers. However, the GOS appears not to have correctly estimated the production costs of agro-business nor expeditiously responded to changes in the international market. The GOS's weak pricing policy has made the CPSP responsible for large subsidies to the oil crushing firms because the CPSP was supposed to subsidize the differential between GOS established producer prices and actual international market prices. Indeed, it has been correctly argued that these subsidies have promoted the poor management and excessive operational costs of the oil crushing firms, one major reason for the upcoming elimination of the subsidy accorded the oil crushing firms.

THE CPSP BALANCE SHEET

BACKGROUND: The last significant CPSP surplus occurred in 1979 when the CPSP account read a positive FCFA 12.6 billion. However, within two years the account reached a deficit low estimated at FCFA 19.2 billion. CPSP accounts have steadily improved since then. In 1982 the CPSP deficit registered FCFA 6.6 billion; in 1983, FCFA 4.3 billion; and in 1984, FCFA 1.7 billion. Only in 1985 did the CPSP again register a surplus: CFAF 7.4 billion.

RAISING CONSUMER AND PRODUCER PRICES: There was considerable confusion over the status of CPSP operations by 1983. President Diouf raised consumer prices on a variety of consumer goods during August 1983, eliminating or reducing subsidies on bread; cooking oil; wheat flour; sugar; and gasoline to offset CPSP deficits, while artificially raising the price of rice to improve the competitive position of domestically produced cereals. The IMF believed that these measures would bring the CPSP operations into surplus. The CPSP director said in contrast that cash flows were extremely tight and that the CPSP would still be unable to meet its financial obligations to the Ministry of Finance and agro-business. President Diouf's measures did prove helpful in the end: they contributed to a surplus for 1983/84; but they did not overcome the serious financial constraints facing the CPSP. Producer prices for a variety of cereals were raised 9 to 10 percent in October 1984 while the consumer price for rice was raised 23 percent to CFAF 160/kg in January 1985 in an effort to encourage cereals production. In April 1985 President Diouf again raised producer prices on many key commodities. Cereal prices increased from 17 to 83 percent. Prices for export crops including peanuts increased from 30 to 50 percent. In October 1985, President Diouf announced the establishment of floor prices pegged at FCFA 70/kg for cereals. These measures were to help the CPSP remain solvent while allowing it to continue its prices stabilization function.

USAID INTERVENES WITH ITS ESF PROGRAM

RECRUITING TECHNICAL EXPERTS: USAID (under ESF I amended and ESF III) and other donors pushed for the recruitment of external technical assistance to strengthen CPSP finances and management in order to improve management in CPSP. The GOS agreed to the principle of hiring technical experts under ESF I and to their presence under and ESF III covenant. The World Bank and French agreed to finance three technical experts: one to deal with world prices of agricultural commodities, one with agro-industry, and one with financial management. One technical assistant who did not work out was recruited from CEGIR, a Canadian consulting firm. The search continues.

STUDYING CPSP RICE OPERATIONS: USAID contracted with Kansas University to undertake an evaluation of CPSP rice operations. The report concluded in December 1984 that the CPSP needed to improve its management; specifically (1) its economic analysis of commodity markets, including basic data gathering; (2) its storage program, (3) it rice purchasing operations, and (4) its accounting procedures. It recommended that the GOS reassess its subsidy for rice transport to the interior and the sale of rice on credit. The evaluation also called for a diversification of sources for rice imports and the promotion of an acceptable substitute grain in order to improve Senegal's balance of payments situation.

AUDITING THE CPSP: The chaos encompassing CPSP accounts has aggravated the financial chaos facing the CPSP. Donors agreed that the status of CPSP operations had to be clarified. A USAID-financed audit of CPSP accounts was included in ESF I conditionality. Several partial audits undertaken by Arthur Andersen, an American accounting firm, in response to IMF and USAID conditionality confirmed that CPSP needed better financial and inventory control. Primarily, CPSP needed to (1) reconcile its financial accounts with those of its banks and the Treasury (indeed, Arthur Andersen is in the midst of performing such a reconciliation) and (2) recognize that any unpaid credit accounts should be considered non-recoverable unless the government takes strong action to gain repayment. Arthur Andersen found in its 1982 audit of the CPSP rice marketing operation, published in December 1984, that the CPSP needed to verify its inventory; specifically, it found that the CPSP does not reconcile its records of rice unloaded with those of rice stored with those of rice sold. Arthur Andersen concluded in its 1984 report that rice prices needed to be raised FCFA 30/kg to compensate for losses due to bad credit and lack of inventory control. The GOS responded in January 1985 by raising rice prices from FCFA 130 to FCFA 160/kg partly as a result of the audit's findings and partly as a result of IMF and World Bank pressure to raise rice prices. In addition, CPSP has attempted to produce quarterly reports and reconciliation of accounts in response to ESF conditionality but the information will have little meaning until the CPSP's past accounts are rectified.

THE GOS GETS TOUGH

DEMANDING REPAYMENT OF PAST CREDIT: The CPSP has begun to demand repayment of outstanding credit over the past year. It has made a major effort to repay arrears to the banking sector and the Senegalese Treasury. The legal system has also cooperated in the prosecution of bad loan cases. The threat of confiscation of goods and imprisonment has, in many instances, encouraged individuals to reimburse outstanding loans. The CPSP has recovered approximately FCFA 380 million in back debt, including debt resulting from credit sales of PL-480 rice. But this impressive sum is far short of the FCFA 4 billion in unpaid loans estimated by Arthur Andersen.

DISMANTLING THE CPSP

REDUCING CPSP ACTIVITIES: The GOS agreed, in response to donor conditionality (a covenant under ESF I), to a diagnostic study undertaken by SEMA Metra Conseil, a French consulting firm. The study examined the possibility of reducing CPSP activities and simplifying or eliminating the purchasing and marketing roles that the CPSP plays in rice supply. This study, delayed because the World Bank and French had difficulty choosing a consulting firm, was completed in April 1985. The study found that CPSP needed to separate its rice import and marketing operations from its price stabilizing operations; all donors agreed with these findings. SEMA Metra Conseil, apparently reflecting the influence of a French socialist government, recommended that a new parastatal be formed under the auspices of the Ministry of Commerce to undertake the importing and marketing operations. USAID opposed this idea and, along with IMF, has supported privatization. In August 1985 the Ministry of Finance presented a plan for the elimination of CPSP purchasing and marketing roles. This proposal was supported by USAID but faced strong opposition.

THE PRIVATIZATION OF RICE: The final compromise position taken on the CPSP rice _filiere_ was agreed to in the November 1985 negotiations with the World Bank for a US$60 million 18-24 month structural adjustment credit. As a condition for the disbursement of the first tranche, GOS agreed to (1) separate the rice marketing from the price stabilization function of the CPSP and (2) partially privatize the importation and distribution of rice. The GOS insisted on creating a 60,000 MT security stock of rice and the continuation for two years of control by SONADIS (a mixed public-private trading company) over the distribution of 80,000 MT (bargained down from 120,000 MT) of imported rice to rural areas. Senegal imported, by comparison, 360,000 MT of rice during 1984. The hope is that this arrangement will encourage and expand private sector involvement in rice marketing operations without jeopardizing people's access to rice, particularly in rural areas where transportation costs may be excessively high. A minimum of three importers (including SONADIS) will be selected from among Senegalese and foreign firms to import the remaining rice. The GOS is also examining the possibility of privatizing SONADIS.

THE PRIVATIZATION OF GROUNDNUTS: By a December 1985 presidential decision, the groundnut sector is to be privatized following several moves throughout 1985 to liberalize its production and marketing. This liberalization program is meant to expand and encourage peanut production as part of the New Agricultural Program (NAP) announced by President Diouf in the April 1984. The NAP also raised producer prices for groundnuts 50 percent, from FCFA 60 to FCFA 90/kg for the 1985/1986 growing season. Government subsidies to the oil crushing firms were halved in 1985 and will be eliminated for 1986. The management of the two firms (SONACOS and SEIB) will be consolidated in June 1986. Privatization of CPSP's groundnut operations should make the entire peanut market more efficient while unburdening the GOS of one of its major financial drains.

ABOLISHING THE CPSP: Both USAID and the GOS expect that CPSP will soon privatize all of its <u>filieres</u> now that privatization of both rice and groundnuts is proceeding. Future ESF conditionality will be designed to ensure that this privatization process is not reversed. Rice is the only operation which has traditionally run a surplus and when it is privatized later this year (1986), the GOS will face the prospect of financing yearly CPSP deficits. This is not a realistic option given the state of the GOS finances. It is generally assumed that CPSP will be abolished in the upcoming few years. The present USAID-sponsored Arthur Andersen audit of all CPSP filieres has been undertaken with the notion of facilitating this abolition while assisting the GOS not to assume CPSP debt generated from unreconciled accounts.

SONAR, Retained Earnings, and Input Distribution:

ESF III: conditions precedent:
Contract between GOS and oil crushing firms (SEIB and SONACOS) on management of seed stock.

ESF III: special covenants:
1. GOS to present plan to organize the distribution of fertilizer by the private sector for 1985/1986 crop year by 31 May 1985.
2. SONAR and STN will be liquidated by 31 May 1985.
3. GOS will complete action plan for progressive transfer of seed stock to farmers over six year period.

OVERVIEW

USAID INTEREST: USAID became involved with SONAR and the retained earnings system as a proponent of both following the dissolution of ONCAD in October 1980. USAID later supported a program to privatize the distribution of SONAR's two major distributed inputs, seed and fertilizer, as part of a general move toward privatization in the agricultural sector and in response to the huge debt being accumulated by SONAR. Specifically, USAID supported a program to give farmers responsibility for maintaining their own seed stock and for the use of private firms to supply fertilizer.

BACKGROUND: SONAR was established with donor support to take over ONCAD's responsibility of supplying farmers with agricultural inputs, particularly seed and fertilizer. These inputs were to be paid through the retained earnings system, a system in which a levy was imposed on farm output this year in order to pay for required inputs next year. SONAR and the retained earnings system were originally intended as a temporary parastatal. Donors were well aware of the possibility that SONAR would follow the same path as ONCAD and, as the following discussion will show, this proved to be the case. The struggle to end SONAR's brief existence was hard fought.

ORGANIZATION: This discussion will be organized around the two major inputs: seeds and fertilizer. It will discuss why the retained earnings system in each case failed to cover the cost of supplying these inputs and why USAID supported privatization through its conditionality as the best means of overcoming these difficulties. It will then turn to problems which may result from USAID conditionality. It will be important to keep in mind throughout this discussion two main themes of this report, namely the impact of mismanagement and lack of credit.

SONAR AND SEED DISTRIBUTION

SONAR'S MANDATE: According to its original mandate, SONAR should have been only tangentially involved in the credit system, given only enough crop credit to assist in the purchase of a small amount of selected seed (75,800 tons in 1982/83). SONAR purchased the rest of the seeds directly from the oil crushing firms on credit from banks in order to reach a seed stock of 120,000 MT. In theory, the expenditure on this 120,000 MT seed stock should have been covered by the retained earnings system which imposed a levy on farmers of FCFA 10/kg in 1982/83, raised to FCFA 15/kg in 1983/84 (with an additional FCFA 5/kg reserved for fertilizer bringing the total levy to FCFA 20/kg). In reality, the cost of the seed stock was rarely defrayed.

THE FAILURE OF THE RETAINED EARNINGS SYSTEM: The design of the retained earnings system worked, but only partially and only in years with high yields. The 120,000 MT seed stock costs the GOS FCFA 12 billion annually to maintain, requiring that 800,000 MT of groundnuts be marketed through GOS channels. This has been accomplished in only eight of the previous fifteen years. SONAR could not cover the expense of purchasing seeds for the seed stock in 1982/1983 because the retained earnings levy that year proved insufficient and the GOS did not disburse its FCFA 1.1 billion subsidy to the parastatal. Large deficits also arose in the 1983/84 growing season when the seed levy again proved insufficient due to the dramatically lower production caused by the drought. (Only 342,000 MT of ground nuts were marketed which generated only FCFA 5.1 billion in revenue, FCFA 6.9 billion short of what was needed.) A CPSP surplus of approximately FCFA 5.6 billion that year helped cover the cost of the deficit.

REDUCING SENEGAL'S SEED STOCK: The GOS attempted to move away from the maintenance of an excessive seed stock in the 1984/1985 growing season but not enough peanut seeds were made available that year as a result of both the drought and the reduction of the existing seed stock from 120,000 MT to 60,000 (with 40,000 MT made available at cost). Farmers apparently had not been prepared to hold back their own seeds despite a GOS announcement of its intent to reduce the peanut seed stock. This accounts in part for the major shift to millet production in this past growing season, much larger than expected given the farmers' need to replenish their cereal stock after the drought. Despite this major reduction in the size of the seed stock, the GOS did not experience significant savings. Cost of maintaining and distributing the seed stock remained high: FCFA 10 billion.

THE IMPACT ON THE BANKS AND SENEGAL'S LIQUIDITY: The big losers in the input distribution game have been the banks and ultimately the Government of Senegal. SONAR turned to the banks for financing in years when the retained earning system did not cover the cost of the seed stock. The banks were obliged to comply to the tune of FCFA 13 billion which has represented an additional burden on their already overtaxed resources and exacerbated Senegal's general liquidity crisis.

USAID INTERVENES IN SEED DISTRIBUTION WITH THE ESF PROGRAM

THE ELIMINATION OF SONAR: USAID requested the liquidation of SONAR under ESF III conditionality. Donors chose to focus their attention on the abolition of SONAR and the retained earnings system because these, like the CPSP, were plagued by financial mismanagement. They had come to be viewed as anathema, inefficient institutions costing the GOS dearly, promoting over reliance on government by the farmers, and penalizing the most efficient farmers who maintain their own carefully selected seed stocks more cheaply and who would prefer the flexibility of non-involvement in the national seed stock. It also appeared to maintain peanut production in marginal areas where the production of other crops made greater economic sense. Both donors and the GOS recognized the significant savings that the GOS would incur by ridding itself of the need to subsidize SONAR but understood that the seed stock afforded Senegal a security stock, protecting farmers from drought years. The GOS was also hesitant to turn the crucial function of input delivery over to the private sector because of its unwillingness to suffer the political consequences of alienating vested interest groups and because of traditional suspicion of private business.

Under ESF III the GOS reluctantly agreed to a compromise position which included the abolition of SONAR but allowed for a transfer of peanut seed holdings to farmers over a six years period. The oil crushing firms were placed in charge of the seed stock and a security stock during this transitionary period. (Fertilizer distribution was also to be privatized; see below.) SONAR ceased operations in December 1984 and was officially dissolved in May 1985. The GOS agreed to take on the responsibility of its debt.

MAINTAINING A SECURITY SEED STOCK: The GOS and oil crushing firms signed a contract in December 1984 in response to USAID conditionality which effectively transferred management of the seed stock from the defunct SONAR to SONACOS and SEIB. So began the "six year" plan envisioned by the ESF program to transfer control to the farmers. Senegal will probably have no seed stock in the upcoming year. The six year transition has been whittled down to one. Farmers have been told to keep their own seeds; however there is some question as to whether they will do so.

The oil crushing firms will maintain control of a 60,000 MT peanut <u>security</u> seed stock by contracting with farmers to produce selected seeds. The purpose of this security stock is to protect farmers and the GOS from another drought or other calamity and act as a means of upgrading the existing seed stock. The oil crushing firms were considered a natural intermediary as they already buy peanuts as part of their operations. Unlike the seed stock of past years, seeds will be sold at or near cost prices and those seeds not sold will be crushed by SONACOS. The new GOS policy of having farmers pay for seed from the security stock will create and incentive for farmers to maintain their own stocks while minimizing the risk that seed will be unavailable for farmers in need or that the national seed stock will be degraded. This security stock should also significantly reduce the financial obligations of the GOS to the maintenance of the seed stock because SONACOS will pass all costs onto the farmers when the seed is sold.

POSSIBLE PROBLEMS WITH FARMER-MAINTAINED SEED STOCKS: The responsibility of the seed stock was in effect privatized and fell to the farmers themselves with the dissolution of SONAR. At the time of this privatization it was unclear what type of facilities were available on the local level for seed stocking or how they would be used. The Ministry of Rural Development has recently completed a study detailing what facilities exist and are needed. USAID estimates that at present, 20-40 percent of seeds planted come from farm stores. When ESF III was written, USAID had not studied how much seed stock farmers would hold, and where and how they would do so. USAID presently has a study underway to answer many of these questions under the Sahel Policy Analysis and Support Project. Peanut seed storage is a much more difficult problem than cereals seed storage. With millet, farmers need to store four kilograms of seeds per hectare, with corn about seven. Peanut production requires 100 to 120 kilograms of unshelled peanuts, 60 to 80 shelled, per hectare. SODEVA is in the process of looking into what storage facilities exist for groundnuts in the peanut basin but if growing season 1984/85 is any indication of the ability or willingness of farmers to maintain peanut seed stocks, there is call for alarm. The storage problems thrust upon local farmers and communities with the abolition of SONAR and the retained earnings system may prove quite burdensome, at least in the short run. In the long term it is expected that villagers will be able to take on the responsibility of storage reasonably well.

POSSIBLE SOLUTIONS: Several possible solutions that address these issues have been suggested in the ongoing policy dialogue. One solution suggested is that of expanding the function of SONACOS to take over some of the potential storage problems. Farmers might sell their ordinary seed to SONACOS in return for selected seed that may be vacuumed packed. This would improve conservation by reducing pest and mold infiltration and destruction. These peanuts would also be delivered shelled, thus ridding the farmers of one tedious, time consuming task. This latter option would also assist SONACOS, which could burn the shells and save on energy costs. Such a program fits in well with SONACOS's new role as a security stock holder. However, it is only under preliminary discussion.

SONAR AND FERTILIZER DISTRIBUTION

FERTILIZER USE AND FERTILIZER POLICY: Fertilizer usage has fluctuated widely over the past ten years from a low of 14,820 MT in 1970/71 to a high of 93,316 MT in 1976/77. This fluctuation can be attributed in part to the confusion and delays caused by the frequent change of distribution networks and institutions which occurred throughout the past fifteen years. Other major contributing factors have been the abrupt removal of subsidies which raised the price from FCFA 25/kg in 1981/82 to FCFA 120/kg in 1984/85 (a 380 percent rise) and the lack of credit for the purchase of fertilizer; credit is presently available only through SODEFITEX and SAED. Many farmers are unaware of the benefits of fertilizer use or are unwilling to undertake the risk of purchasing fertilizer given the risk of another drought year. Finally, there has been great discontent among farmers because of poor record keeping on the village level which has led to irregularities, maldistribution, and abuse of the delivery network.

SONAR'S INVOLVEMENT IN FERTILIZER DISTRIBUTION: The control of fertilizer distribution once again fell under SONAR auspices in the 1984/1985 growing season after having been privately allocated through SSEPC, a private firm. (Its privatization under SSEPC was a result of USAID's Agricultural Development Assistance Sahel Development Fund, 685-0249.) The retained earnings system was also used to finance the full cost of fertilizer distribution, with FCFA 5/kg exacted from marketed groundnuts. This system proved unsatisfactory in 1984/84 when only FCFA 1.75 billion were received in revenue to purchase fertilizer at a USAID subsidized price of FCFA 100/kg. Only 17,500 MT were bought which, when added to the 10,000 MT purchased by other RDAs, constituted an insignificant portion of fertilizer for the peanut basin. Furthermore, the oil crushing firms which collected the retained earnings had been reluctant to transfer this revenue to SONAR until SONAR had reimbursed them for its debt incurred by the seed stock. Under GOS pressure, the funds were released and fertilizer finally distributed, though far behind schedule and too late to have a significant effect on production. In sum, 1984/85 saw a breakdown in the fertilizer distribution network which contributed to the marked decline in peanut production experienced this past year.

FINANCING FERTILIZER USE: A major constraint on fertilizer use has has been the lack of financing available for its purchase. Fertilizer needs will continue to be financed in the short term through a combination of cash sales, bank credit, and external assistance. USAID and the Caisse Centrale have agreed to support degressive subsidies on cash sales of fertilizer over the next three years in order to encourage fertilizer use; in 1986/87 the subsidy will amount to FCFA 24/kg, FCFA 16/kg in 1987/88, and FCFA 8/kg in 1988/89. The step by step reduction in subsidy will soften the abrupt shift to privatization. These subsidies are viewed by USAID not as an economic necessity but as a psychological tool to encourage fertilizer use and fertilizer purchase on a cash basis while reducing farmer resistance to price hikes. The subsidies were also meant as an incentive to encourage the development of private sector distribution networks. Farmers should have no trouble paying for the increased cost of fertilizer with the income generated from rises in officially set prices for farm products, as long as they retain sufficient cash on hand.

PROSPECTS FOR PRIVATIZING FERTILIZER: USAID promotes the privatization of fertilizer marketing but there remain many questions that may significantly affect Senegal's ability to privatize. Demand for fertilizer is an unknown variable, especially under present circumstance when little credit is available, subsidies are small, the risk of another drought is significant, and farmers' cash resources and attitudes toward fertilizer use are not known. Private entrepreneurs are reluctant to invest when it is so difficult to predict farmer demand. Secondly, few institutions are willing to take on the responsibility of providing credit to farmers for input purchasing given their bad credit histories. Lack of credit will continue to suppress both demand and supply for fertilizer, yet to what extent remains unclear. Finally, given the frequent shifts in GOS policy on fertilizer distribution over the past ten years, private firms are reluctant to invest their time and resources into fertilizer production until they are confident that GOS regulation will not once again change.

USAID INTERVENES IN FERTILIZER DISTRIBUTION WITH THE ESF PROGRAM

REORGANIZING THE FERTILIZER MARKET: No plan has yet been presented by the GOS, in response to an ESF III covenant, for the reorganization of the fertilizer sector, but there have been on-going discussions on private fertilizer marketing among GOS officials, USAID officials, and private sector businessmen. In July 1985, ICS agreed to produce 7500 MT in the upcoming year at the request of SONACOS which hopes to ensure a minimum level of fertilizer use in the peanut basin. ICS has also agreed to produce an additional 6000 MT to foster demand among farmers. SENCHIM, the marketing arm of ICS, will assist with the financing, and will provide fertilizer with 30 percent down, 70 percent payable in 45 days. SONACOS has agreed to purchase the fertilizer if the degressive subsidies are approved and to distribute it to farmers. The quantities discussed by USAID, the CCCE, SONACOS, and ICS in July are small but represent a start toward privatization. They also reflect the difficulty encountered in attempting to privatize this market. Meetings are continuing between donors and Senegalese business leaders, but no conclusive agreements have been reached and no formal distribution network has yet been organized.

We should also note that USAID/Senegal, through its Agricultural Production Support Project (685-0269), will assist Senegal develop a private sector network of fertilizer distributors. The project aims at overcoming one major constraint to privatization, that being the lack of available credit, by providing lines of credit through private channels banks to entrepreneurs to help them establish enterprises and augment the volume of fertilizer sales in rural areas. The project will also help to stimulate fertilizer use by encouraging the GOS to fund fertilizer field trials and to disseminate information to farmers through RDAs on the benefits of fertilizer to crop production.

PRIVATIZATION AND FOOD SELF-SUFFICIENCY

USAID's support for the privatization of fertilizer and seed distribution have come into conflict with another overriding goal of the GOS and donors: that of food self-sufficiency. In the short run at least, yields may fall in many areas until a new, privatized distribution network is established. It is crucial that donors look carefully at the impact of input privatization on food production and take into account possible declines in production when assessing Senegal's needs for project assistance.

SAED, SOMIVAC, and SODEVA: The Ongoing Struggle To Slim Down the RDAs:

ESF III: condition precedent:
Draft contract-plan between GOS and SAED acceptable to USAID.

ESF III: special covenants:
1. GOS will sign contract-plan acceptable to AID with SOMIVAC and SODEVA detailing reorganization of their roles, reduction in their personnel, and obligations of the GOS.
2. Signature of contract-plan between GOS and SAED by January 31, 1985 acceptable to AID, the World Bank, and the French government.

OVERVIEW

USAID INTEREST: USAID interest in RDAs parallels its interest in SONAR. Through its own projects, it has supported the use and extension of RDAs. USAID desire to assist the GOS with its debt crisis and its own growing belief that RDAs were not cost effective led USAID to make a closer examination of the potential benefits derived from the privatization of RDA services.

ORGANIZATION: This discussion will take a look at SAED, SOMIVAC, and SODEVA, the three RDAs targeted by ESF conditionality and covenants. It will examine their role in rural development, their financial shortcomings, and finally USAID promotion of their privatization.

THE ROLE OF RDAS

SAED, SOMIVAC, and SODEVA are regional Rural Development Agencies (RDAs) that were originally established to provide rural extension services but which over time have taken on direct production activities. They offered heavily subsidized inputs to farmers including seed, fertilizer, and water as well as such services as land preparation for planting, marketing of agricultural products, and credit. SAED operates in the Fleuve region (Senegal River Basin), SODEVA in the peanut basin, SOMIVAC in Casamance. Senegal's regional RDAs have come under attack as inefficient and costly organizations that have been maintained more for political reasons than for their ability to improve rural agricultural production.

THE ECONOMIC VIABILITY OF RDAS

ECONOMIC INEFFICIENCIES: Basic economics suggest that these agencies have little reason to minimize costs because they are subsidized by the GOS, and indeed, these agencies are more or less obliged through GOS policy to act in a noncompetitive fashion. In an ISRA study conducted by the University of Michigan ("The Official Market for Cereals in the Senegal River Valley," August 1985), researchers reported that many of SAED's operating expenses made little economic sense. Its transportation costs, for example, were double that of other wholesalers in the Fleuve area. The capacity of its rice mills was too great given the mills' breakeven point, making small privately run mills more profitable and cost-effective. SAED's most efficient mill, for example, operated at only 42 percent capacity in 1983/84. SAED was forced to undertake non-profitable trade and now operates at a significant loss because GOS policy required RDAs to honor set government prices regardless of transportation costs. (The Michigan study cites paddy produced in the Bakel region, processed by SAED, which costs fourteen times more to assemble than rice in the Delta region). Yet SAED must compete with private wholesalers and traders who can select the most profitable markets. These operations are economically inefficient for SAED and a substantial drain on the national treasury. Compounding these problems, SAED has a long history of financial mismanagement and ineffective accounting, both reminiscent of the experience of the CPSP.

EXTERNAL CONSTRAINTS: Yet not all the problems can be attributed to RDA operational procedures and GOS agricultural policies. Donors and the GOS supported a massive expansion of the RDAs throughout the 1970s. Donors encouraged the creation and expansion of RDAs by pumping large sums of money through them; but when donors realized that the results achieved were not at all in proportion to sums donated, they reduced their financial support. The GOS has used the RDAs as a primary source of employment for Senegalese school leavers, effecting a substantial escalation in RDA payroll requirements. The GOS, however, has been unable to meet the full expense of the the subsidies it provides to these parastatals to help them cover their operating expenses. Local banks and suppliers have been reluctant to extend credit to RDAs. These parastatals have been hard pressed to meet their operational expenses. SAED found that it had to use funds earmarked for fertilizer purchase and distribution to pay personnel salaries in 1984 when neither GOS subsidies nor bank loans were forthcoming. The GOS has been hesitant to lay-off workers for political reasons and instead has reduced other operating expenses in their budgets, further diminishing the ability of the RDAs to act as effective extension agencies. RDA costs have skyrocketed over the past decade while their resources and therefore effectiveness have dwindled.

RDA IMPACT: Given their enormous costs, it is unclear whether these RDAs efficaciously affect production. Groundnut yields per hectare remain seemingly unchanged in the peanut basin since 1960 despite SODEVA efforts to increase them. Both the Casamance and Fleuve regions have witnessed an impressive expansion in rice and tomato output although production was subsidized and the costs of the services considerable ($84 million from 1964 through 1978).

REFORM OF THE RDAS

The services provided by these parastatals continue to require heavy GOS and donor assistance; for this reason USAID believes tnat the public service role of these agencies needs to be made more consistent with GOS budgetary capacity and willingness to commit funds. USAID believes that the GOS must realistically reappraise the cost of services provided by SAED, SOMIVAC, and SODEVA and determine which services it can and is willing to financc and transfer the rest to the farmers. To this extent, USAID applauded the New Agricultural Policy (NAP) announced by the GOS in April 1984 which established as objectives: 1) the provision of more decision making responsibility, and therefore more initiative, to farmers themselves; 2) the creation of a low cost, flexible extension service system; and 3) the privatization of many services including input provision. The GOS Economic and Financial Adjustment Program for the Medium and Long Term, presented to the World Bank Consultative Group in December 1984 had among its objectives improving the mangament and fiscal performance of agricultural parastatals and providing incentives to encourage private sector activity in agriculture. USAID wholeheartedly concurred with these goals and under ESF III hoped that contract-plans signed between the various agricultural parastatals and the GOS would reflect these commitments.

USAID INTERVENES WITH THE ESF PROGRAM

CONTRACT-PLAN WITH SAED: The GOS and SAED signed a contract-plan in response to ESF III conditionality on 29 December 1984 with four major aims. SAED is to 1) disengage progressively from production, credit, and marketing functions; 2) concentrate its efforts on rural planning and extension; 3) augment producer prices to reflect real costs of inputs; and 4) reduce and retrain staff. SAED will continue in the short term to play an important role in the distribution of fertilizer and the marketing of rice in the Fleuve region but will no longer extend credit. USAID hopes eventually to limit SAED's role simply to planning and extension work.

CONTRACT-PLANS WITH SOMIVAC AND SODEVA: Contract-plans requested in ESF III covenants between SOMIVAC and SODIVA and the GOS are still pending with many issues left unresolved. Both parastatals would prefer to see their role and responsibilities expanded to include marketing. They would like to vertically integrate their functions in order to coordinate if not control and supervise all agricultural activities in their region. USAID believes this to be unrealistic and is opposed, preferring to see these parastatals limit themselves to extension services. At the moment, SODEVA is insisting only upon the right to distribute selected cereal seeds and not on the selling of fertilizer in the peanut basin. Farmers' ability to purchase inputs on credit remains a potent issue to both parastatals. USAID resists the continuation of sales on credit. It should be mentioned, however, that some positive steps have been taken by the parastatals. SODEVA reduced its staff by 55 percent in 1985.

CEREALS PRODUCTION AND SENEGAL'S SELF SUFFICIENCY /SELF RELIANCE

ESF III: special covenant:
GOS will request a study of constraints to cereals marketing and a plan for removal of the constraints be developed.

OVERVIEW

GOS INTEREST: The recent years of drought have forced the GOS to reevaluate its heavy reliance on peanut production. Food self-reliance, which has become the byword of Senegal's New Agricultural Policy, has been translated into a greater emphasis on the production of cereal crops. This new policy entails increasing irrigated and rainfed land under cereals cultivation; improving farmer access to inputs, storage, marketing; financing facilities and fostering local markets through the processing of these crops; and strengthening production through appropriate pricing policies.

USAID INTEREST: Senegal's desire to become food self-reliant led USAID to examine means of improving cereals production in Senegal. Based on a variety of studies and analyses, USAID concluded that GOS regulation and pricing policies were constraining the expansion of cereals production.

ORGANIZATION: This section will discuss general constraints to cereals production and marketing. It will then examine GOS regulations and policies that are recognized by both the GOS and USAID as impediments to expanded production.

CONSTRAINTS ON CEREAL PRODUCTION AND MARKETING

CEREAL PRICES: Cereals production in Senegal has traditionally been sensitive to changes in government established farmgate prices. Farmers have become discouraged when set prices of cereals have declined, taking this as a market signal and reducing planting the following year. This has often led to a shortfall in production and a rise in price. Farmers have then responded by planting more cereals in hopes of achieving the same high price, only to find that the increased production has led the government to bring prices down. Production has followed this cyclical pattern since independence. Senegal does not produce enough grain at present, even in good years, to meet the needs of its urban population. It cannot produce enough in bad years to meet the needs of the subsistence farmers. (The cereal crop covered only 32 percent of Senegal's needs in the 1983/84 drought year. The 1984/85 growing season, one of the largest on record, produced only 51 percent of Senegal's needs.) The cyclical nature of Senegalese cereal production profoundly affects Senegal's ability to feed itself.

USING PRODUCER PRICES TO ENCOURAGE CEREALS PRODUCTION: The GOS has attempted to encourage cereals production through its pricing policies. In 1981 it raised producer prices for cereals (including rice and cowpeas) by 25 to 33 percent. In 1983, 1984, and 1985 cereal prices were raised again by 40 to 60 percent over this period. In January 1985 the GOS raised consumer prices for rice by 23 percent to CFAF 160/kg, reflecting a cumulative increase of 100 percent since Februrary 1982, in an effort to reinforce its strategy of minimizing rice imports while encouraging domestic production of cereals.

PRIVATIZING RICE: The privatization of rice marketing should positively influence local cereals production through the pricing mechanism. Theoretically, rice prices should rise, discouraging rice purchases and increasing demand for other grains. This should put upward pressure on grain prices and encourage an expansion in grain production, furthering Senegal's goal of food self-reliance.

AGRICULTURAL CREDIT: Lack of credit also appears to be a constraining factor in cereals marketing because it acts as a barrier to entry for wholesalers who must show proof of a FCFA 3 million bank balance before a license is issued, a requirement that hinders their ability to expand in order to absorb more cereal products. In an ISRA study conducted by a University of Michigan research team ("The Official Market for Cereals in the Senegal River Valley," August 1985), wholesalers reported using borrowed capital in their operations but only six percent were able to obtain capital from banks. The mean interest rate for nonbank credit was considerably higher than bank credit (7.2 percent per month compared to 15 percent/annum or 1.25 percent/month for banks). This high interest rate seems to reflect the risk undertaken by lenders since only about 62 percent of loans are reimbursed. There is little recourse for lenders if loans are unrepaid.

USAID INTERVENES WITH THE ESF PROGRAM

STUDYING CEREAL MARKETING: ESF III conditionality required that the GOS undertake a study on the constraints to cereals marketing in hopes of finding means to encourage production. No specific study has yet been completed but numerous discussions between USAID and the GOS have brought these two organizations to a consensus on the problems facing cereals marketing. The University of Michigan has completed several major working papers for ISRA which deal with constraints to cereals marketing. The World Bank and FAO have undertaken a study but it has not yet been completed. An interministerial commission met during the summer of 1985 to discuss these issues but has not yet published its conclusions. No written plan for the removal of constraints in cereals marketing has yet been developed.

REFORMING GOS REGULATION

A general consensus has been reached between USAID and the GOS on constraints to cereals marketing:

1) GOS LICENSING REGULATIONS MUST BE LIBERALIZED: Regulations governing the licensing of wholesalers are presently so strict that it is difficult for established firms to turn a profit without sidestepping the law and bribing officials or risking fines or seizure of their commodities. Wholesalers are required to provide proof of a FCFA 3 million bank balance, certified storage facilities, and the maintenance of regular accounting records. Normally, wholesalers must also agree to handle specific commodities on an annual basis which requires proof of a FCFA 5 million bank balance. These requirements contribute to the general liquidity constraints in the market because regardless of the size of the operation, official wholesalers must meet the regulations. This acts as a significant barrier to entry. Government announcements on who is to participate in the grain trade are often delayed well past the time of the harvest. The decree for the 1982/83 harvest was not signed until January 1984 and in December 1984 for the 1983/1984 harvest, this despite the fact that grain began entering the market in September 1983 and 1984. Such uncertainty often encourages the expansion of parallel unofficial markets or leads wholesalers to shift their operations to other activities leaving farmers without buyers.

2) GOS PRICING POLICIES MUST CHANGE: Traditionally, prices have not reflected the market. Government established producer prices have been fixed to include a set margin above farmgate prices which is often not large enough to give wholesalers a profit. According to the ISRA-Michigan study, official prices often do not provide sufficient margin to cover the costs of three months' storage and transportation to deficit areas. Wholesalers have been forced at times to operate at a loss when farmgate prices have actually risen above officially set prices. On October 15, 1985 the GOS, in response to Title I conditionality, announced the establishment of a farmgate floor price of FCFA 70/kg for millet, sorgum, and corn which should act to encourage farm production by ensuring a minimum guaranteed return on farm investment while allowing farmers to reap a profit should prices rise above the establish level. All firms involved in later stages of production can obtain whatever price the market will bear. One potential difficulty foreseen by AID personnel would arise if too much grain flooded the market and prices fell significantly. It is unclear whether the GOS could afford the cost of subsidizing a large quantity of grain. USAID has therefore encouraged the adoption of a FCFA 65/kg floor price. This year the implementation of this floor price program (at FCFA 70/kg) appears to be proceeding well although the details of the program appear not to have filtered down adequately to the local control agents, thus causing some confusion.

THE IMPACT OF GOVERNMENT REGULATION: Strict market regulations and pricing policies have prevented firms from operating freely in the market and have discouraged others from entering. These regulations severely constrain the absorptive capacity in the cereals market. Not enough firms exist at present to purchase all that farmers wish to sell. Indeed, only the "banabana" (informal sector entrepreneurs) appear capable of turning a small profit but they do so by buying and selling in such small quantities that they bypass altogether GOS regulation and established prices. This lack of non-absorptive capacity discourages farmers by suppressing their ability to sell even when prices are high. USAID hopes that by liberalizing the market, farm production will rise and Senegal will find itself more food self-reliant.

USAID POLICY: USAID supports a system of regulation to guarantee minimum prices to farmers that will help to regularize their income and encourage cereals production. USAID recognizes that some market regulating mechanism is essential and is presently discussing with the GOS what form this mechanism should take. USAID does not support the idea of a state run institution, particularly the CPSP, charged with the responsibility of guaranteeing prices. USAID/Senegal has undertaken the Agricultural Production Support Project with the aim of increasing private sector wholesale and retail cereals marketing by providing entrepreneurs with line of credit to expand their operations.

CREDIT, COOPERATIVES, AND THE CNCAS

OVERVIEW

USAID INTEREST: The importance of credit in the crisis facing Senegal has been an ever present theme throughout this discussion as well as throughout the ongoing policy dialogue between USAID and GOS officials. The major donors have supported the creation of the National Agicultural Credit Bank of Senegal (the CNCAS) to improve farmer access to farm credit. USAID/Senegal has helped to shape the CNCAS through the dialogue process emphasizing the need to decentralize the bank into rural areas and encourage savings as well,as loans. Although not specifically mentioned in any single condition precedent or special covenant, improving Senegal's liquidity has been an implicit goal of the ESF program and was the basis for the decision to use ESF monies to reimburse outstanding crop credit and the cost of the national seed stock. One major constraint perpetuating the liquidity crisis has been the unwillingness or inability of farmers to repay credit. The Caisse Centrale more than USAID has sought to find means of overcoming this problem; it has become the major financial backer of the CNCAS.

ORGANIZATION: This section will discuss the cooperative and village sections movements in Senegal, movements promoted to assist farmers obtain credit and other vital agricultural inputs and sell their produce. It will then turn to a discussion of the CNCAS and its hope of using village groups as a means of injecting credit into the agricultural sector.

CREDIT AND THE COOPERATIVE MOVEMENT

On the local level, credit was given to farmers through cooperatives. Farmers in theory were to obtain inputs through cooperatives on credit and repay the debt when they later marketed their produce. Farmers effectively bypassed the system by purchasing inputs and marketing their crops through different cooperatives.

Cooperatives began as a national movement in 1963; heralded as grassroots in nature, the cooperative movement quickly degenerated into a political and religious mechanism for controlling farmers. The peanut cooperatives, traditionally and economically the most important Senegalese cooperatives, have been dominated by a centrally controlled hierarchy, effectively eliminating farmer participation in management. This has provided an "open door to corruption" through which farmers, particularly the wealthy and powerful, have obtained access to credit and services with little accountability, alienating the weaker cooperative members. Members have little say in who will be selected to receive credit although all members bear the responsibility of any debt incurred.

CREDIT AND VILLAGE SECTIONS

Village sections were seen as a viable alternative to the cooperative system: smaller self-selected groups promoting solidarity and exerting enough peer pressure to ensure repayment of extended credit. Their formation, however, acted as a threat to the politically powerful cooperatives which circumvented the intent of the movement by making village sections subunits of cooperatives. Many villagers were simply assigned to their village section by the local prefect. All in all, 4472 village sections have been created. Some villagers, however, did succeed in divorcing themselves from the cooperatives, realizing that they may be the true victims unless credit is reimbursed by being denied access to future sources of credit. The Caisse Centrale was appalled by the outcome of the movement for the creation of village sections. The Caisse has promoted instead the establishment of <u>groupements de producteurs</u> or producer groups with legal status separate from that of cooperatives.

CAISSE NATIONALE DE CREDIT AGRICOLE DU SENEGAL

The Caisse Centrale is in the process of establishing the Caisse National de Credit Agricole du Senegal (CNCAS or the National Agricultural Credit Bank of Senegal). When it comes on line, only those village sections and <u>groupements</u> which the CNCAS considers "legitimate" will be given access to credit. This will be determined in part by these groups' compliance with a regulation requiring them to put up 20 percent of their own funds.

The CNCAS has established branches in Dakar, Thies, and Matam and hopes to open offices in Ziguinchor and Kolda soon. There has been concern over what some consider excessive expenditures already spent by CNCAS on building and personnel but generally the bank appears to have had a fairly successful start. Its office in Matam reports collection of FCFA 150 million in savings in the fall of 1985. CNCAS has already received FCFA 6 billion in loan applications from the agricultural sector exemplifying the enormous pent up demand for credit. But it has only FCFA 450 million in lending capacity until the end of 1985, a credit ceiling imposed by the Central Bank.

LESSONS LEARNED AND RECOMMENDATIONS

The following are a list of recommendations which follow from the analysis presented in this evaluation.

1. USAID ESF design team members already have a wealth of information and studies which explain problems with the status quo. In subsequent ESF programs, additional analysis (economic studies, cost benefit analyses, and political analyses) is needed to select conditionality and judge the impact of proposed ESF reforms, that is, on the economic and political consequences of the program and on means of minimizing short-term disruptions which are likely to accompany the implementation of structural reforms.

2. The timing of implementation of structural adjustment reform has matched GOS ability and readiness to respond with reform measures. In future ESF programs, a master plan or PERT chart should be created which links potential reform measures to target conditions identified in studies or established with the ESF program. Pace should be made more sensitive to the economic and political consequences of conditionality.

3. Specific ESF reforms appear to support prevailing GOS and US strategies for improving agricultural production in Senegal. Design documents need to clearly define "end-of-reform" conditions, and, as much as possible, these conditions should be quantified. As an example, the documents need to identify target ranges - within a stated time-frame - for improvements in agricultural production or for the provision (in these cases by the private sector) of agricultural inputs. Once these end-of-reform conditions are defined, baseline data should be systematically accumulated to show progress in achieving ESF program goals and criteria established with which to judge the success of the ESF program.

4. USAID/Senegal has underway or plans to undertake a variety of projects in the agricultural sector to assist with privatization. The ESF program's overall effectiveness would be maximized with the design and timely implementation of mutually supportive project and non-project assistance.

5. USAID needs to delink the ESF program from IMF standby targets to ensure the level of analysis required to produce a sound, well thought-out ESF program. This may require that ESF negotiations begin much earlier so as to accomplish this level of analysis well before IMF target deadlines or this may require a complete separation, delinking, of the two programs.

Attachment: ESF time table
ESF conditionality tables

Drafted by: Nancy Northrop:--
original draft: 26DEC85
final draft: 02JUNE86

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TIME TABLE

Aug. 1983	Consumer prices officially raised ESF I signed
Sep. 1983	IMF structural adjustment credit signed
Dec. 1983	ESF II signed IMF standby target deadline
Feb. 1984	ESF I amended
Apr. 1984	President Diouf announces New Agricultural Policy
June 1984	IMF standby target deadline
Oct. 1984	Producer prices officially raised
Dec. 1984	Phase I audit of CPSP rice accounts completed SONAR stops operations Contract plan signed between GOS and SAED Contract signed between GOS and oil crushing firms on seed stock management ESF III signed IMF standby target deadline World Bank Consultative Group Meeting in Paris and GOS presentation of its Economic and Financial Adjustment Program for the Medium and Long Term
Jan. 1985	IMF structural adjustment credit signed Rices prices raised
Apr. 1985	Producer prices officially raised SEMA Metra Conseil completes diagnostic study of the CPSP
May 1985	SONAR officially abolished
Oct. 1985	Cereal floor prices established
Dec. 1985	Phase II CPSP audit completed ESF IV signed IMF standby target deadline
Feb. 1986	New Industrial Policy announced
May 1986	Phase III (final) audit of the CPSP to be completed.

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
ESF I				
CONDITIONS				
(Conditions Precedent to First Disbursement)				
1. Boiler plate		Satisfied		
2. Agreement with IMF on 1983/1984 Standby program		Satisfied		
(Conditns Prec to Disbursement of Local Currency)				
1. Formal agreement on the IMF Standby Program		Satisfied		
2. Road Maintenance		not applicable: Rural road maintenance was eliminated from GOS budget so that ESF no longer constituted budgetary support but support for items in addition to the budget. Also, because World Bank's Fifth Highway Project was [illegible]ed and redesigned, the complementarity of USAID and WB activities in this sector no longer existed.	Decided funds more urgently needed in coordinated IMF/WB/Caisse Centrale/ USAID effort to reimburse outstanding crop credit: 1) immediate impact on available credit in domestic banking sector and 2) reimbursement for this credit was crucial to the financial stability of the CFSP.	
SPECIAL COVENANT				
1. Efficient Import Procedures for CIP		not applicable. USAID carried out the total $5.0 million under direct reimbursement.	To assist Senegal with IMF standby, local currency had to be available by June 30, 1984. AID estimated that through CIP funds would be made available too late to meet IMF performance criteria. Furthermore, importers prefer cheaper non-American sources. Given Senegal's BOP situation and its balance of trade deficit with the US, it was not appropriate to require the 2.5 million be additional to current levels of imports from the US.	West African Monetary Union: The availability of the foreign exchange for importers is not dependent on Senegal's foreign exchange but on the rate of growth of the money supply. If an importer can obtain CFAF credit, he is assured of gaining the necessary foreign exchange through the French Treasury. The CIP program is therefore not well adapted to members of WAMU.
2. Road Maintenance Budget		not applicable		
3. Road Maintenance and Improvement		not applicable		
4. Periodic Consultations on the Economy		Intense on going discussions among donors and GOS.		

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
ESF I: AMENDED				
CONDITIONS PREC. TO DISBURSEMENT OF LOCAL CURRENCY				
1. Suspend all credit sales of PL-480 commodities	A major source of CPSP debt has been the sale of PL-480 commodities, particularly rice. These commodities were being used by CPSP for political patronage purposes. Most credit was never repaid. Of approximately CFAF 985 million in outstanding credit sales, the CPSP had only recuperated CFAF 26 million by the spring of 1984. Credit sales were stopped to protect CPSP from future defaults on commodity loans and ensure that future PL 480 programs are respected.	satisfied	The CPSP has begun to demand the repayment of past credit and has recuperated some of the PL-480 debt. (See ESF I, cond. 3 below.)	
2. Accept the principle of hiring outside technical assistance to reinforce CPSP financial management and establish an acceptable date by which technical experts will be recruited.	The World Bank and French agreed to finance three technical experts - one to deal with world prices of agricultural commodities, one with agro-industry, and one with financial managment.	Principle agreed upon. Technical assistant recruited but fired for technical incompetence.		Assistant from CEGIR, a Canadian Consulting Firm.
3. Undertake audit of CPSP accounts	Large deficit caused by 1) fall in World Price of peanuts 2) faulty pricing policies, and 3) poor and inefficient management. By 1983 there was much confusion over the status of CPSPs operations. The importance of the audit: As the CPSP is progressively privatized, the GOS will turn over most CPSP operations to private enterprise. The GOS will then take over whatever CPSP debt remains, be it actual debt or debt claimed by banks and businesses which cannot be refuted due to poor bookkeeping.	Arthur Andersen audit of rice accounts completed in December 1984. Phase II of audit on all activities completed Dec. 1985. Reconciliation of CPSP records with those of banks and businesses will take place in phase III which should begin in January 1986 and be completed by the end of May 1986 and will cover accounts through 1985.	Findings of Phase I of Andersen audit: CPSP needs better financial and inventory control. In the rice market Arthur Andersen suggested that rice prices be raised an additional 30 CFAF/kilo to compensate for losses from unpaid credit. Over the past year, CPSP has begun to demand repayment and called in outstanding credit. It has made a major effort to pay arrears to the banking sector and the Senegalese Treasury. The legal system has also been more cooperative in bad loan cases. The CPSP has recovered approximately 380 million in back debt, far short of the estimated 4 billion (including PL-480 rice, see condition 1 above) that Arthur Andersen estimated as unpaid debt.	In response to IMF conditionality and the Arthur Andersen audit, the GOS raised the price of rice 30FCFA in January 1985 to CFAF 160/kilo.
COVENANTS				
1. Examine the possibility of reducing the CPSP's activities and of simplifying or eliminating the purchasing and marketing roles of the CPSP.	See ESF I, conds. 1-3.	Diagnostic study completed in April 1985 by Sema Metra Conseil, A French consulting firm. In August 1985 the Ministry of Finance presented a plan for the elimination of CPSP purchase and marketing roles. A compromise position was worked out during WB SAL negotiations in December 1985.	Findings of Sema Metra study: need to separate import and marketing operations from price stabilizing operation. A new parastatal should be created within the goverment under the Min. of Commerce for importing and marketing. U.S. opposes this idea. Final decision expected in November. In the WB SAL negotiations, the GOS agreed to 1) separate rice marketing from price stabilization and 2) partially privatize the importation and distribution of rice. Groundnuts and rice are scheduled to be privatized. USAID expects the privatization of othe filieres to follow.	Diagnostic study delayed because French and WB took a long time to select consulting firm. Study reflects French influence (socialist government). The U.S. and IMF promote privatization. The Ministry of Finance proposal was supported by USAID.
2. Require the CPSP to produce clear accounts of its overall situation by quarter and according to its various sectors of intervention.	see ESF I, conds. 1-3.	CPSP is attempting to produce quarterly accounts but they have little meaning until Arthur Andersen completes reconciliation		In phase III of its audit, Arthur Andersen has been asked to reconcile 1985 accounts as well.

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
ESF II				
CONDITIONS PRECEDENT TO DISBURSEMENT				
1. Boiler Plate		satisfied		
SPECIAL COVENANTS				
1. Government will provide USAID with copies of reports to IMF and other donors regarding compliance with stabilization program.		satisfied		
2. GOS will stand by terms and conditions of IMF Standby.		satisfied in June 1984		
3. GOS will implement reforms in the agriculture sector as agreed with the new sector policy being prepared by GOS with donor help.	This condition was an advance on the reforms outlined in ESF III.	satisfied. New Agricultural Policy was announced by President Diouf in April 1984.	Diouf's New Agricultural Policy called reduction in the central role of the state and parastatal organizations in managing agriculture with a corresponding shift of responsibility to farmers groups and private interests; the policy focusses on four key areas: 1) the organization of rural producers into viable economic units, 2) the privatization of agriculture input supply and distribution 3) a reduction in the role of parastatal RDAs and 4) the formulation of an effective cereals policy.	
4. The Program Agreement and Grant shall be free from all Senegalese taxes and fees.		satisfied		

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
ESF III				
CONDITIONS PRECEDENT TO DISBURSEMENT				
1. Boiler Plate		satisfied		
2. Contract between GOS and oil crushing firms on management of seed stock.	With liquidation of SONAR, GOS began a six year plan to give responsibility of seed storage to farmers themselves in accordance with program begun in May 1985. In the 1985 marketing season, GOS contracted with SONACOS and SEIB to manage and distribute the seed stock. In 1986 farmers will have responsibility for their own seed stocks (see ESF III, spec. cov. 4). SONACOS will continue to maintain a security stock.	satisfied. Contract plan signed Dec. 1984 for interim management of seed stock. No contract necessary for maintenance of security stock as that is considered part of SONACOS' responsibility.	As a consequence of both the drought and the reduction in the existing government run seed stock, the peanut seed distribution system broke down in the 1984/85 growing season and not enough peanut seed was available for planting. There was a major shift from peanut production into millet production, larger than would normally be expected for replenishing the farmers' cereal stocks. Farmers apparently had not been prepared to hold back their own seed and so were forced to shift into millet production.	Last year the seed stock was reduced from 120,000MT to 60,000MT (with 40,000MT made available at cost price). In the 1985/86 growing season, oil crushing firms will contract with farmers to produce selected seed for a 60,000MT security stock which will will also act as a means to upgrade the existing seed stock.
3. Draft contract-plan between GOS and SAED acceptable to USAID.	SAED has been offering heavily subsidized services to farmers including seeds, fertilizer, water and land preparation. USAID believes SAED should get out of direct production activities and concern itself only with extension services. Present services require much GOS/ donor financing.	Contract signed 29 December 1984. (see special covenant 7, ESF III)	SAED is to 1) disengage from production, credit, and marketing activities; 2) concentrate its efforts on extension; and 3) augment producer prices to reflect real costs of inputs.	
4. Oil crushing firms meet contactual terms with GOS to repay debts to banking sector for 1983-1984 groundnut purchases and pay excess profits to GOS treasury in accordance with agreed upon transaction costs.	As of November 21, 1984, SONOCOS and SEIB had 2.6 billion CFAF in outstanding crop credit. IMF financed program providing for a 3.5 billion CFAF positive excess profit which the oil crushing firms were to pay to GOS by December 31, 1984. AID estimated that this excess profit would actually reach 4.37 billion CFAF.	satisfied	Because of drought, 1983/1984 groundnut harvest fell sharply. However, international prices of groundnut products rose dramatically and the surplus on groundnut operations of CFSP were approximately 6.9 billion CFAF.	Management of SONACOS and SEIB will be consolidated in June 1986. Market operating decisions are to be made independently in hopes of improving profitability and decreasing operating expenses. GOS subsidies halved in 1985 and abolished for 1986.
SPECIAL COVENANTS				
1. GOS agrees to comply with terms and conditions of 1984-1985 IMF Standby if one is concluded.		satisfied		
(Major components of IMF agricultural conditionality not included in AID/ESF program)				
a. restructuring of cooperative system though the creation of village sections.	Peanut cooperatives, economically and traditionally the most important Senegalese cooperatives, have been dominated by a centrally controlled agricultural and marketing hierarchy. The result has been the effective elimination of farmer participation in cooperative management. Members have little choice in selection of members to receive credit although all members are responsible for the debt. The cooperatives have been used by farmers to avoid credit repayment. Village sections were seen as an alternative: smaller groups promoting solidarity and exerting	4,472 village sections already created.	The cooperative movement, an important political force in Senegal, fought back by making village sections subunits of cooperatives. Divisions were not decided by farmers but by prefects, who assigned farmers to sections, thereby bypassing the intent of the conditionality. The Caisse Centrale was appalled and has pushed for the creation of groupement de producteurs with legal status separated from cooperatives.	The Caisse Centrale is in the process of establishing the Caisse National de Credit Agricole. When it becomes operative, only those village sections and groupements which are "legitimate" will be given access to credit. They will be required to put up 20% of their own funds, a rule designed to ensure the seriousness of the group.

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
b. producer prices of maize, millet/sorghum, paddy, and cowpeas to be raised by 20%, 9% 10% and 40% respectively.	to encourage grain production.	implemented October 8, 1984.		In April 1985, prices for cere... increased between 17-83%. Prices for export crops were increased 30-50%. In October 1985, a cereal floor price of CFAF 70/kilo was established.
2. GOS to present plan for reorganization of fertilizer sector for 1985-1986 crop year by May 31.	To improve fertilizer distribution and reduce activities of existing parastatals, USAID promotes free market approach to fertilizer distribution and elimination of the retained earnings system. The 1985 growing season witnessed a breakdown in the fertilizer distribution system which contributed to the dramatic fall in peanut production experienced this year.	still working on it. No subsidies paid by GOS on fertilizer but AID and the Caisse Centrale have agreed to provide subsidies for the next three seasons.	The GOS has permitted the public sector to buy and sell urea and NPK directly. Farmers' fertilizer needs will be met by the proceeds from retainers levied on peanut producers, sales, bank credit, and external assistance. However, fertilizer demand is unknown, an important variable given the present situation when farmer credit is not widely available. ICS has agreed to produce 13,500 tons. SENCHIM (ICS' marketing subsidiary) and SONACOS have agreed to market it. Ongoing meetings still occuring among business figures and USAID, however no private mechanism yet organized.	Because fertilizer profoundly affects production, fertilizer policy will profoundly affect Senegal's goal of food self-reliance and its balance of payments position.
3. SONAR and STN will be liquidated by May 31.	To decrease costs to government. STN was established to resettle farmers in Senegal Oriental and to encourage vegetable growing but has proved inefficient and costly. SONAR had been created (at donor request) to take over the functions of dissolved, debt ridden ONCAD but it too proved inefficient and debt ridden. Sonar had been charged with input (fertilizer and seed) distribution. Its costs should have been covered by the retained earnings system but this rarely happened, in part because of the drought, in part because of general mismanagement.	law passed in May 1985 abolishing both institutions although SONAR stopped operations in December 1984.	Significant savings to GOS. Peanut seed distribution given to SONACOS in short term, farmers in long term. However liquidation of SONAR has created a vacuum in the fertilizer and seed distribution system. No distribution method yet organized for fertilizer distribution.	
4. GOS will complete action plan for progressive transfer of seed stock to farmers over 6 year period.	Maintaining a seed stock is expensive. Last year's seed stock, held by SONACOS, cost 10 billion CFAF. With liquidation of SONAR, this responsibility was privatized and fell to the farmers themselves.	Contract plan with SONACOS signed (see ESF III, condition 7.) Despite the six year timetable, seed stock management has been transferred to farmers for the 1985/1986 growing season.	Unclear what type of facilities exist on the local levels for seed stocking. Unclear how much farmers will keep, where, and how. AID plans to request AID/W under Sahel Policy Project to conduct study to answer some of these questions. Cereal seed does not need much storage space but peanuts do.	

ESF CONDITIONALITY	REASONS	STATUS	RESULTS	NOTES
5. GOS will sign contract-plan acceptable to AID with SOMIVAC and SODEVA detailing reorganization of their roles, reduction in their personnel, and obligations of the GOS.	USAID believes that RDAs perform too many activities, are too involved with actual production, are too inefficient, and too costly. AID wants to see them perform two functions: 1) regional coordination and 2)extension services (training and information, not input distribution.)	still pending. Many issues still unresolved.	SOMIVAC and SODEVA would like to expand their role and responsibilities by including marketing in their repertoire of activities and thus vertically integrating the entire agricultural process into their parastatal. AID believes this is unrealistic. At the moment SODEVA is only insisting on distributing selected cereal seeds and not on the selling of fertilizer. However, many questions remain unresolved, most importantly, whether farmers will be allowed to purchase seeds on credit. (AID is opposed to this.) SODEVA reduced its personnel by 55% in 1985.	
6. Completion of diagnostic study by CPSP and recruitment of external technical assistance to strengthen finance and management along with the development of an action plan for reorganizing the CPSP.	(see ESF I, covenant 1 for a discussion of the SEMA Metra Conseil and CPSP action plan.) The World Bank and French agreed to finance three technical experts - one to deal with world prices of agricultural commodities, one with agro-industry, and one with financial management.	Technical assistant recruited but later fired.	The GOS agreed to privatize CPSP rice and groundnut filieres.	Assistant from CEGIR, a Canadian Consulting firm.
7. Signature of contact-plan between GOS and SAED by January 31, 1985 acceptable to AID, the World Bank, and the French Government.	see ESF III, condition 3	Contract signed December 29, 1984. (see ESF III, condition 3.)	SAED still plays an important role in providing fertilizer and rice marketing. It no longer gives credit leaving a vacuum in the credit market. In many areas, farmers are working on cash basis. AID trying to limit SAED role to planning and extension.	
8. GOS will request a study of constraints to cereals marketing and a plan for removal of the constraints developed.	AID hopes to improve competition in the Senegalese cereal market. Senegal does not produce enough to meet the needs of the urban population in good years. It cannot even provide for the subsistence farmers in bad years. GOAL: Senegal's new agricultural policy places emphasis on promoting cereal production. This will entail increasing cultivated areas, both rainfed and irrigated, improving farmers access to inputs, storage, marketing, and finance facilities, fostering local markets through the processing of these crops, and strengthening production through appropriate pricing policies.	no specific study has been done. Rather, a multitudinous number of discussion has brought the GOS and USAID to a general consensus on problems in the cereals marketing. Several major studies have been completed by the University of Michigan for ISRA on constraints to cereals marketing A WR/FAO study is also not yet completed. No plan for the removal of constraints has been developed.	conclusion reached by consensus: 1) Regulations must be liberalized; 2) Pricing structure must be changed; 3) Large companies need to be allowed to operate freely in order to improve the absorptive capacity of the market and thus encourage farmer production; 4) The privatization of rice should encourage grain production as both rice and grain prices rise.	USAID supports a system of regulation to guarantee minimum prices to regularize the incomes of farmers (who might otherwise switch to peanut production.) USAID recognizes that some market mechanism is essential. USAID does not promote a state run institution to guarantee prices.
9. Over the next 12 months GOS will increase its receipts as a percentage of GDP by 2 percent.	Revenues as a percentage of GDP declined throughout the late 1970's and early 1980's.	not even close. It appears to have fallen from 18.1% in 1983/84 to an estimated 17.5% in 1984/85.		