

PD-ABJ-671  
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**Senegal: Rice Structural Adjustment (RSA) Program**

**Program Assistance Approval Document (PAAD)**

**Amendment Number One**

**Program No. 685-0297**

**United States Agency for International Development**

**Dakar, Senegal**

**September 28, 1994**

AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 685-T-612	
		2. Country Senegal	
		3. Category RSA NPA Program Amendment No.1	
		4. Date 28 September 1994	
5. To Douglas L. Sheldon, Acting Director		6. OYB Change Number Not Applicable	
7. From Jan Van Der Veen <i>rvj for Jvd</i> Supervisory Program Officer		8. OYB Increase: \$3,000,000 DFA  To be taken from: FY 94 AEPRP Regional Funds	
9. Approval Requested for Commitment of \$6,000,000		10. Appropriation Budget Plan Code 72-114/51014 GSS4-94-31685-KG39	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None	13. Estimated Delivery Period 03/31/94 - 03/31/97	14. Transaction Eligibility Date Upon Authorization

15. Commodities Financed Not Applicable, Cash Disbursement

16. Permitted Source U.S. only	17. Estimated Source Not Applicable U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash \$3,000,000	Other

18. Summary Description The purpose of this five-year Senegal Rice Structural Adjustment program (685-0297/0301) is to increase the incomes of farmers who produce paddy rice for the internal Senegalese market through liberalization of rice marketing and processing. To date, a total amount of \$30.0 million has been authorized for the program of which \$28.0 is for the sector program (685-0297) and \$2.0 for the complementary project support assistance (685-0301). Initial FY 1994 obligation of \$8,000,000 for the sector program and obligation of all of the \$2,000,000 for the complementary project support assistance have been made.

STATE 263952 from DAA/AFR provides ad hoc delegation of authority to the Mission Director, USAID/Senegal to: (1) revise conditions precedent to disbursement of the three tranches with the effect of accelerating compliance with these conditions; (2) authorize life-of-program increase of the sector program component from \$28.0 to \$31.0 million; and (3) further obligate \$6.0 million in FY 94 under the sector program grant (685-0297).

19. Clearances	Date	20. Action	
	9/9/94	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	
OFM: John Katt (Draft)			
PPS/OPS: M. Goya <i>rvj</i>	9/28/94	Authorization/Signature	Date
DAA/AFR per State 263952	9/28/94	<i>Douglas L. Sheldon</i>	9-28-94
		Title Acting Director, USAID/Senegal	

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SECSTATE 263952

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INFO: RIG-1 ECON-1 DCM-1 AMB-1

DISTRIBUTION: AID  
CHARGE: AID

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E.O. 12356: N/A  
TAGS:

SUBJECT: SENEGAL RICE STRUCTURAL (RSA) ADJUSTMENT PAAD  
AMENDMENT NO. 1 (685-0297)

1. ON SEPTEMBER 26, 1994, THE DAA/AFR NATE FIELDS  
AUTHORIZED: A) AN INCREASE IN THE RSA PROGRAM LOP FROM  
USDOLS 28 TO 31; B) AN INCREASE IN THE FIRST TRANCHE  
DISBURSEMENT BY USDOLS 3 MILLION FROM USDOLS 8 MILLION TO  
11 MILLION; AND C) REVISIONS TO THE CONDITIONALITIES WHICH  
WILL ACCELERATE THE IMPLEMENTATION OF THE REFORMS  
IDENTIFIED IN THE ORIGINAL PROGRAM.

2. THE TOTAL AMOUNT OBLIGATED THIS FISCAL YEAR BY THIS  
AMENDMENT IS USDOLS 6 MILLION. THE COMBINED LOP FOR THE  
RSA PROGRAM AND COMPLEMENTARY PROJECT IS USDOLS 33  
MILLION.

3. DAA/AFR, AS ALTER EGO TO AA/AFR, HEREBY DELEGATES  
AUTHORITY TO THE ACTING MISSION DIRECTOR, USAID/SENEGAL TO  
APPROVE THE PAAD AMENDMENT AND THE PROGRAM GRANT AGREEMENT  
AMENDMENT TO THE SENEGAL RICE STRUCTURAL ADJUSTMENT  
PROGRAM IN AN AMOUNT NOT TO EXCEED USDOLS 6 MILLION. THIS  
AD HOC DELEGATION OF AUTHORITY SHALL BE EXERCISED IN  
ACCORDANCE WITH THE REGULATIONS, PROCEDURES AND POLICIES

PROMULGATED WITHIN USAID IN EFFECT AT THE TIME THIS  
AUTHORITY IS EXERCISED.

4. USAID/W REGRETS THE DELAYS EXPERIENCED IN PROCESSING  
THIS AMENDMENT.

CHRISTOPHER

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

**ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA**

DATE: September 12, 1994  
THROUGH: AFR/WA, Paul Tuebner *PT*  
FROM: AFR/WA, Rebecca J. Niec *Rebecca Niec*  
SUBJECT: Amendment Number One to the PAAD for the Senegal Rice Structural Adjustment (RSA) Program (685-0297)

Issues: You are requested to approve an ad hoc delegation of authority to the USAID/Senegal Director to sign the subject amendment. This amendment will:

- a) increase the non-project assistance (NPA) funding by \$3 million (LOP increase from \$28 million to \$31 million);
- b) increase the first tranche disbursement of the conditional resource transfer by \$3 million (an increase from \$8 million to \$11 million);
- c) change the conditions precedent, with the effect of accelerating implementation of the reforms identified in the original program, as further described below; and
- d) delegate authority to the Director, USAID/Senegal, to authorize an incremental funding obligation of \$8 million in FY 1994.

Background: On February 19, 1994, Acting AA/Africa Carol Peasley approved the \$28 million Senegal Rice Structural Adjustment (RSA) Program grant (685-0297) and the \$2 million complementary project assistance grant (685-0301). The amount of \$28 million will be disbursed in three tranches as certain policy conditions are met. The \$2 million will support technical assistance and related costs to assure effective implementation of the policy reform program.

The primary purpose of this five year policy reform program is to increase the incomes of farmers, who currently produce paddy rice

for the international Senegalese market, through the liberalization of rice marketing and processing. This is fully consistent with strategic objective number four of the approved Country Program Strategic Plan for USAID/Senegal.

Due to the January 1994 CFAF devaluation, new price relationships have made several aspects of the RSA Program conditionalities obsolete. Imported rice prices doubled and the wholesale price of broken rice, still administered, rose by 33%. Domestic costs of producing paddy rice also rose slightly and the declining subsidy to paddy rice processors in the Senegal River Valley (a subsidy built into the RSA Program as a device to gradually wean processors from dependence on state support) was no longer deemed necessary.

The USG, working through the Paris Club, provided debt relief to the Government of Senegal (GOS), but also wanted to provide additional cash resources to the GOS to support the devaluation decision. In an April 18, 1994 action memorandum, the AA/Africa approved the allocation of \$3.0 million in non-project assistance to support ongoing rice market liberalization reforms in Senegal. State 108905 of April 25, 1994 announced this decision to USAID/Senegal. This additional allocation was taken from FY94 Regional AEPRP (African Economic Policy Reform Program) funds and was approved, in principle, subject to an Africa Bureau review of the proposed amendment. These funds will increase the RSA Program LOP funding as well as the first tranche disbursement by \$3 million.

State 186571 of July 13, 1994 announced USAID/W's decision to disapprove the \$4.2 million third year commodity request under the Senegal Multi-Year PL-480 Title III Program and the substitution of \$3 million (the estimated commodity value) in DFA for an FY 94 obligation elsewhere in the Senegal portfolio. Based on programmatic considerations, USAID/Senegal proposes to obligate these funds in the RSA Program, due to the non-project, quick-disbursing characteristic of these funds. Therefore, USAID/Senegal has requested an additional obligation of \$3 million to the RSA Program in FY94 to absorb the PL-480 Title III compensating funds.

Discussion: This amendment will increase the LOP of the NPA RSA Program (685-0297) from \$28 million to \$31 million. By the same token, it will add \$3 million to the first tranche cash disbursement, increasing it from \$8 million to \$11 million. It is anticipated that all conditions precedent to the disbursement of the first tranche will have been met by the GOS by November 1994.

The amendment will also increase the FY 94 obligation by another \$3 million, to absorb the PL-480 Title III compensating funds.

This action is only a programmatic forward funding action, as it is within the overall program amount that has been approved by USAID/W. Thus, Senegal's approved FY 94 OYB will increase by \$6 million.

The planned FY 95 RSA obligation will be reduced from \$10 million to \$7 million and the FY 96 obligation will remain \$10 million.

The three tranche disbursements will be as follows:

- 1st: increased from \$8 million to \$11 million;
- 2nd: remain at \$10 million and
- 3rd: remain at \$10 million, as provided in the RSA grant agreement, as amended.

Based on joint GOS - USAID/Senegal analysis of the program in the new post-devaluation context, three basic changes are made in the conditions precedent to disbursement in this amendment. These revised conditionalities have the effect of speeding up important policy reforms identified in the original program. The revised conditionalities will:

1. Delete all language concerning a reference farm paddy price for rice; instead permit market forces to establish, immediately, a farm paddy price for rice;
2. Delete all references to a subsidy for qualifying private mills; instead permit competitive forces to determine which mills will flourish and which will not; and
3. Implement immediately the conditionality calling for evidence that the GOS has closed, sold, or transferred to the private sector all GOS controlled rice mills.

As is the case for the original \$28 million of conditional resource transfers, this supplemental \$3 million will not generate local currency. The approved waiver of the requirement that the GOS provide at least 25% of the cost of the total program applies to this amendment. This amendment does not affect the goal nor the purpose of the original program, nor does it affect the way that the RSA Program supports the efforts of the GOS to liberalize and privatize Senegalese rice markets.

Conclusion: Members of the technical committee have reviewed this amendment individually and have recommended that it be approved.

Authority: This action will exceed the USAID Director's delegated authority under DOA 551 because the amendment will increase the authorized LOP amount to more than \$30 million, and thus requires AA/AFR approval. Pursuant to DOA 550, as Deputy

Assistant Administrator, you have the authority to approve this action as the "alter ego" to the AA/AFR.

Notification to Congress: A Congressional Notification (CN) for \$3 million was submitted to Congress on August 4 and expired without objection on August 19. A second CN for \$3 million was sent to Congress on September 12 and is expected to clear September 27. An exemption from the separate account requirement was contained in both CN's.

Recommendations: It is recommended that you sign below, thereby approving:

1. the increase in life-of-program funding from \$28 million to \$31 million for the Senegal Rice Structural Adjustment Program (685-0297);
2. the increase in first tranche disbursement by \$3 million from \$8 million to \$11 million and the changes in the conditions precedent; and
3. the ad hoc delegation of authority to the USAID/Senegal Director, to sign both the Amendment No. 1 to the Program Assistance Approval Document and the Program Grant Agreement Amendment, thus obligating an additional \$6 million in FY 94.

Approved: Nathaniel Fields

Disapproved: \_\_\_\_\_

Date: September 26, 1994

Clearances:

AFR/WA:CWilliams (draft)

AFR/DP:CReece (draft): revised draft (8/31)

AFR/WA:RKite (draft):revised draft (9/9)

PPC/PAR:CWeiskirch (draft)

GC/AFR:DLuten (draft 7/26/94): revised draft *Due* date *9/22/94\**

AFR/DP:JGovan (draft 7/29/94):revised draft:DDay (draft 9/20/94)

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## Drafted by:

AFR/WA:NWoodruff:7/21/94

Revised:AFR/WA:CWilliams/RNiec:x79206:7/27/94

Revised:AFR/WA:RNiec:8/24/94 *RJN*

Revised:USAID/Dakar:MBeye/CCowey/Jvderveen:8/25/94

\* Subject to  
satisfactory  
resolution of  
cash transfer/interest  
issue.  
*Due*

Program Assistance Approval Document (PAAD) Amendment

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## I. Program Background

On February 18, 1994, Acting Assistant Administrator for Africa Carol Peasley approved the \$30 million Senegal Rice Structural Adjustment (RSA) Program Grant (685-0297) and Project Support Grant (685-0301). The goal of this \$30 million, five year RSA policy reform program is to increase private sector incomes through the liberalization of agricultural markets. This goal is fully articulated as Strategic Objective Number 4 of USAID/Dakar's approved Country Program Strategic Plan. The primary purpose of the RSA program is to increase the incomes of farmers who currently produce paddy rice for the internal Senegalese market through the liberalization of rice marketing and processing. The RSA program supports the efforts of the GOS to implement two fundamental changes. First, administratively determined prices are being replaced with a price system that better reflects real economic costs. Second, inefficient parastatal enterprises are being replaced with efficient, competitive private enterprises.

This amendment adds \$3 million to the first tranche of the conditional resource transfer of the RSA program (685-0297). As is the case for the original \$28 million of conditional resource transfers, this supplemental \$3 million will not generate local currencies. Revised conditionalities will have the effect of speeding up important policy reforms identified in the original program. The approved waiver of the requirement that the GOS provide at least 25 percent of the cost of the total program applies to this amendment. This amendment does not affect the goal or the purpose of the original program, nor does it affect the way that the RSA program supports the efforts of the GOS to liberalize and privatize rice markets in Senegal.

### A. The Original Grant Agreements

The program consists of (a) a \$28 million non-project assistance grant, to be disbursed in three tranches as certain specified policy conditions are met, and (b) a \$2 million complementary project assistance grant to support technical assistance and related costs to assure the effective implementation of the policy reform program.

The RSA program was developed following detailed discussions on agricultural policy between the donor community, led by the World Bank, and the Government of Senegal. These discussions extended over four years. Under the rubric of the Programme d'Adjustement du Secteur Agricole (PASA), these discussions covered the commodities of rice, groundnuts and cotton, and agricultural credit, agricultural research and natural resource management issues. In mid-1992, the character of those discussions changed. The World Bank decided that the "competitiveness" issue represented a constraint that had to be eliminated before it would make any additional major investments

in Senegal. Discussions on PASA reforms effectively halted. For its part, USAID/Dakar continued discussions with the GOS on the rice sub-sector, but there was little substantive progress on policy reform issues. Then, in the fall of 1993, the GOS signaled to USAID/Dakar its intent to begin serious bilateral negotiations on policy reforms in the rice sub-sector. These negotiations, which took place under the umbrella of the PASA discussions, culminated, in December, 1993, in the agreement to seek approval from USAID/W of the \$30 million RSA program.

In late December, the RSA program PAAD was reviewed in USAID/Washington. The Bureau for Africa requested additional information relating primarily to "people-level impact" and "environmental impact" issues. USAID/Dakar provided those materials in February, 1994. Following USAID/W approval of the Program Grant and the Project Support Grant, USAID and the Government of Senegal signed the Grant Agreements on February 28, 1994. The GOS has indicated that it will have satisfied, by June, 1994, all the initial standard conditions (two opinions of counsel, two sets of specimen signatures, a bank account number and a list of the membership of the RSA Steering Committee) that will allow implementation of the program to begin.

#### B. Events of 1994

On January 12, 1994, shortly after the conclusion of the bilateral negotiations on the RSA program, the Government of Senegal, along with the other African governments of the franc zone, announced a fifty percent devaluation of the CFAF against the French franc. Shortly thereafter, the World Bank announced that it was interested in re-starting the negotiations on all the sub-sectors covered by the PASA. These two announcements triggered a series of events that have led to the preparation of this Program Assistance Approval Document (PAAD) amendment.

Due to the devaluation of the CFAF, imported rice prices (in CFAF terms) doubled. The wholesale price of broken rice, still administered, rose by 33 percent from CFAF 122 to CFAF 163. Thus the perequation, managed by the Caisse de Péréquation et de Stabilisation des Prix (CPSP), became negative. Domestic costs of producing paddy also rose, but by a far smaller amount. The (declining) subsidy to paddy processors in the Senegal River Valley, a subsidy that had been built into the RSA program as a device to gradually wean those processors from their dependence on support from the state, was no longer needed.

At the same time, the United States Government (USG) wanted to express its support for the courageous and difficult decision to devalue the FCFA taken by the GOS. The principal vehicle of this expression of support was the participation by the USG in the Paris Club discussions that led to the agreement (under enhanced Toronto terms) to provide debt relief to Senegal. The bilateral debt rescheduling agreements (Paris accords) are being prepared as this PAAD amendment is being written. The USG also

wanted to provide additional cash resources to the GOS. On April 18, 1994, USAID's Assistant Administrator for Africa approved the allocation of \$3 million in non-project assistance to support ongoing rice market liberalization reforms in Senegal (see Annex 4). This is a supplemental \$3 million, increasing the approved FY 1994 operational year budget (OYB) to Senegal by that same amount. It was understood that these additional funds would be available only if they were disbursed rapidly and if they were tied to the RSA program. This amendment meets those two objectives by increasing the level of the first disbursement of the RSA program from \$8 million to \$11 million. It is anticipated that all conditions precedent to the disbursement of the first tranche will have been met by the GOS by the fall of 1994.

After announcing its interest in restarting the PASA negotiations, the World Bank indicated that it was observing closely the pace of implementation being followed by the GOS in the rice sub-sector. Rapid and thorough implementation of the reforms jointly agreed to by the USG and the GOS would signal a seriousness of purpose that had not always been evident in earlier, and often highly frustrating, negotiations between the donors, led by the World Bank, and the GOS.

These events provided the context for the first official contact between the GOS and USAID/Dakar on whether and how the RSA program could be amended. Based on its analysis of the program in the new post-devaluation context, USAID/Dakar suggested three basic changes in the conditions precedent to disbursements. These changes were:

-- Delete all references to a reference farm paddy price for rice; instead permit market forces to establish, immediately, a farm paddy price for rice;

-- Delete all references to a subsidy for qualifying private mills; instead permit competitive forces to determine which mills will flourish and which will not; and

-- Implement immediately the conditionality calling for evidence that the GOS has closed, sold, or transferred to the private sector all mills currently controlled by the Société Nationale d'Aménagement et d'Exploitation des Terres du Delta de Fleuve Sénégal et de la Vallée du Fleuve Sénégal et de la Falémé (SAED).

The amended conditions precedent are fully presented in Section 5.A, below. The amended verification measures are fully presented in Section 5.B, below. The original covenants remain unchanged.

## II. Analysis of the Proposed Amended Conditionalities

### A. General Analysis

The changes in the conditionalities have the effect of accelerating the pace of the reforms in the rice sub-sector. Specifically:

-- Under the original Grant Agreements, the GOS agreed to replace the existing fixed price for paddy rice with a reference, or indicative, price. A reference price is not a price that buyers must, by law, actually pay. However, rice millers who wished to receive a subsidy (this was to have been a declining subsidy of 25 FCFA under the first tranche, 15 FCFA under the second tranche, and zero thereafter) would have had to pay the reference price to paddy farmers. As this subsidy was to have been reduced and eventually eliminated (by tranche 3), the usefulness of the reference price would have gradually vanished. In effect, this amendment means that a free market price for paddy would take effect in June, 1994, rather than in conjunction with the disbursement of tranche 3, estimated to have taken place in late 1996.

-- The declining subsidy for private millers that was linked to the announcement of a reference price for paddy rice in the original Grant Agreements is effectively reduced to zero under this amendment. The implication of the GOS's agreement to eliminate the reference price for paddy rice is that there is no gap between that (non-existent) reference price and the prevailing market price. Accordingly there is no need for a subsidy to fill that (non-existent) gap.

-- The GOS was having difficulties meeting the requirement that it close, sell or transfer to the private sector all SAED mills. Negotiations on this issue with SAED's Rice Processing and Marketing and Processing Division (Unité Rizeries, Intendance et Commercialisation, or URIC) had stalled. It appeared that the conditionalities associated with the first tranche would not have been met until well after the forthcoming rice season had ended. This amendment has the effect of accelerating the process by which the GOS will no longer play a role in purchasing and processing paddy rice.

### B. Delays in the Implementation Plan Anticipated in the PAAD

According to the PAAD, the GOS anticipated meeting the conditionalities to the first disbursement in April, 1994, and anticipated disbursement in May, 1994. This disbursement schedule slipped dramatically. In the wake of the devaluation, it appeared that the GOS would be unable to undertake any of the substantive reforms anytime soon, and certainly would be unable

to undertake these reforms in time to affect the next paddy-growing season (the "contre-saison" of June-August, 1994). As recently as May, 1994, USAID/Dakar anticipated that first disbursement would likely take place early in 1995. There were three reasons (discussed below). First, the GOS had to turn its attention to essential macroeconomic requirements flowing from the devaluation; some of those requirements had swamped the proposed reforms in the rice sub-sector. Second, as noted above, the GOS was unable to quickly resolve problems associated with efforts to close, sell or transfer to the private sector all of the SAED mills. Third, the GOS and the donor community (particularly USAID) were unable to come to a rapid agreement on the terms of reference of the CPSP restructuring study.

#### 1. Requirements Flowing from the Devaluation

The devaluation of the FCFA generated sudden and massive levels of uncertainty throughout the economy of Senegal. Already thinly stretched, senior GOS officials had to devote their attention to the pressing issues that followed in the wake of the announcement of the devaluation. By far the most important of these were the closely related issues of one-time price rises and ensuing inflation. The GOS bureaucracy, in close collaboration with the International Monetary Fund (IMF), the World Bank and the Government of France, responded by exhortations to keep one-time price hikes (especially in commodities whose import prices, in CFAF terms, had just doubled) low, by negotiations on formal sector wages (a roughly ten percent wage bill hike was finally negotiated), and by establishing relatively modest price hikes in those commodities which the GOS still controlled. This included a number of prices in rice markets, explicitly including the official farm paddy price. In the interests of stabilizing the highly sensitive rice markets, the donors (led by the IMF and the World Bank) agreed that they would not apply pressure on the GOS to liberalize administered rice prices, including the price of paddy rice.

#### 2. Privatization of SAED's mills

Negotiations between the GOS and SAED on the privatization of the URIC mills stalled. SAED management argued that credit would be a key constraint to the successful processing of paddy rice. SAED management was concerned that, in the wake of the devaluation, the GOS would permit a market-determined price for paddy rice. SAED's mills were accustomed to operating under an administered pricing system. SAED management argued that the mills had expected to receive a (declining) subsidy under the initial unamended RSA program; they did not accept the argument that the changes in relative prices following the devaluation made such a subsidy irrelevant. They pressed for a credit program, in principle to be made available to all mills, that would effectively provide a subsidy to those mills able to gain

access to that credit program. The debate continued, unresolved, well into May, 1994.

### 3. The CPSP Restructuring Study

In the course of negotiating the original RSA program, the GOS observed that discussions with the donor community on sources of support for the development of a restructuring plan for the CPSP were blocked. USAID/Dakar expressed interest in reviewing a proposal to develop such a plan. Initial negotiations were unproductive. Negotiations became more productive only after the RSA Grant Agreements were signed. With those signings, the GOS became fully committed to limiting, by the disbursement of the third tranche of the RSA program, the (rice-related) activities of the CPSP to (1) monitoring the rice sector, (2) contracting with the private sector for broken rice imports only, under emergency conditions only, and (3) contracting with the private sector for the management of security stocks of rice on behalf of the CPSP. But those negotiations, productive as they eventually were, were only the first step. USAID/Dakar, jointly with the GOS, prepared a scope of work, and issued a Request for Proposals. USAID/Dakar still must award a contract; the contractor must complete the study; and the GOS must review and adopt the restructuring plan before the first tranche funds may be disbursed. This will take time.

#### C. Recent Developments Affecting the Implementation Plan

By mid-May, the GOS had satisfied the IMF that it had put in place most of the necessary measures that accompany a "successful" devaluation. The worst fears of rapid one-time price rises had substantially dissipated. The domestic political pressures to maintain an administratively determined price for paddy rice lessened. It was at this point that USAID/Dakar and the GOS reinstated discussions on the timing of eliminating the administratively determined price for paddy rice. The Ministry of Finance has stipulated to USAID/Dakar that, starting in June, 1994, the GOS intends to allow the price of paddy rice to be determined by market forces. Indeed, at a meeting of the Council of Ministers on June 7, 1994, the GOS decided to completely liberalize the price of paddy rice.

After lengthy discussions, the Ministry of Finance effectively rejected the arguments of SAED's management that the private mills of the Senegal Valley required a credit program. The Ministry of Finance has stipulated that that the GOS will close, sell or transfer to the private sector all SAED mills by June 30, 1994.

The GOS also is moving forward on other conditions precedent. For example, the negotiations between the GOS and USAID/Dakar on the terms of reference for a CPSP restructuring

plan were concluded in April. USAID/Dakar agreed to fund the study. The request for proposals was issued in May. Contractor bids will be evaluated in June. The study should be completed by the end of FY 1994. Adoption of the resulting CPSP restructuring plan is an important condition precedent to the first disbursement.

Related events are taking place on a broader scale. In April, 1994, the donors, led by the World Bank, restarted their discussions with the GOS on the PASA. The immediate goal of these PASA discussions is the announcement of a new Statement of Agricultural Development Policy (DPDA, after the French Déclaration de Politique de Développement Agricole). The new DPDA is scheduled to be announced in September, 1994. The financial resources behind this new policy statement are enormous; current speculation suggests that these resources will substantially exceed \$100 million. As noted above, the World Bank has stated to the GOS that the pace of implementation of the RSA program would materially effect the size and nature of the proposed package that will emerge from the PASA discussions. In short, it is in the interests of the GOS to implement the RSA program vigorously.

#### D. Constraints Analysis

The constraints analysis in the original RSA PAAD (Section III.D) remains valid. The principal constraint to the development of the rice sub-sector remains the existing policy framework. However, one very significant policy element has been overcome: the 50 percent devaluation of the FCFA against the French franc has, for all intents and purposes, eliminated the perequation. Indeed, at present world prices and given the current administered domestic wholesale price for imported broken rice, the perequation is negative.

Before the devaluation, when the perequation was positive and large, consumers were paying domestic prices for broken rice far above the import (CIF) price. As noted in the original PAAD, the protection for domestic producers was substantial; it contributed to the excessive domestic resource cost (DRC) of 3.6. Furthermore, the GOS used the perequation to subsidize the production and processing of paddy, a product that, under existing technology and given existing prices, was (and still is) unable to compete in international markets. Given the current (post-devaluation) administratively determined prices for wholesale broken rice, consumers no longer pay excessive prices for imported rice. They no longer subsidize paddy producers and processors through taxes on imported rice.

As explained in the original PAAD, the GOS recognized that necessary changes in the rice sub-sector would have to be linked to greater efficiency in production, in processing, and in

distribution. By devaluing the FCFA, the GOS took a giant step toward creating a more reasonable price incentive structure. Liberalizing domestic prices and reforming key institutions (the CPSP and SAED parastatals) will translate into far more rapid changes in the behavior of paddy farmers than would have taken place under the old foreign exchange regime. In short, the devaluation has created a context for the RSA program in which the proposed policy reform decisions are more easily taken, and in which the impact of those policy decisions is substantially greater.

#### E. Economic Analysis of the Amended Conditionalities

The economic analysis of the amended conditionalities closely parallels that done for the original RSA program (see Annex 10, Case 4, which assumes a modest devaluation). Both the original analysis and the analysis provided in Annex 3 to this amendment assume a discount rate of 15 percent. Both calculate direct program benefits (the original analysis sums the benefits from eliminating the transport subsidy, and from reducing both the subsidy to SAED and the milling costs; the amended analysis sums the benefits from eliminating the transport subsidy and the subsidy to SAED, and from reducing the milling costs). Both calculate the benefits from improved resource use. The original analysis (Case 4) used an exchange rate of CFAF 392 = US\$ 1.00; the analysis provided in Annex 3 of this amendment uses the current approximate exchange rate of CFAF 560 = US\$ 1.00.

Two cases are shown in Annex 3. Case One illustrates the situation that currently exists, that is, the situation that precedes the adoption of this amendment to the RSA program (e.g., the net present value of the \$30 million program is \$25.869 million dollars). Case One is extremely conservative. There are two main reasons. First, the CFAF 25 billion figure is a pre-devaluation estimate taken from the detailed analysis of Annex 9 of the original RSA PAAD; price increases spawned by the devaluation would put this figure in the CFAF 30-35 billion range. Second, it is assumed that only five percent of this CFAF 25 billion in misallocated resources is recovered annually, beginning in year three of the program (this parallels the original analysis). Even under these extreme assumptions, Case One generates a benefit/cost ratio of nearly 1 (0.97). This result is highly sensitive to the assumption that only five percent of the misallocated resources is recovered annually. If this is increased to (a still very conservative) ten percent, the benefit/cost ratio rises to a very satisfactory 1.24.

Case Two illustrates the situation that will exist after the adoption of this amendment. Using the same extremely conservative assumptions identified above, Case Two generates a benefit/cost ratio of 1.00. Adopting the ten percent recovery rate brings the benefit/cost ratio to 1.34. There are two

principal differences between the two cases. The first is a slight increase in direct benefits due to the fact that the subsidy to SAED mills is terminated at the beginning of the program under Case Two, rather than being phased out over a three year period as in Case One. The second is a more substantial increase in benefits in Case Two caused by the more rapid production response of farmers to the liberalization of paddy rice prices in the beginning of the program rather than at the end, as originally contemplated.

USAID/Dakar anticipates that farmers currently producing paddy in the Senegal River Valley will respond forcefully and rapidly to the incentives established under the new liberalized and privatized regime. The results of the economic analysis indicate that the benefits of accelerating the adoption of key reforms are substantial.

### **III. The Amended Implementation Plan**

Substantive aspects of the implementation plan, as described in the original PAAD, will not change. However, the timing will be different. The amended implementation plan will reflect not only the delays caused by the devaluation, but also the subsequent acceleration attendant upon this amendment. A revised illustrative implementation plan follows (Table 1):

Table 1: Illustrative Implementation Schedule

<u>Item</u>	<u>Date</u>
Action Memorandum, PAAD Authorization and Project Authorization Signed in AID/Washington	02/94
Grant Agreements Signed	02/94
Members of GOS ASG Steering Committee Appointed	06/94
First Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	06/94
First Meeting between USAID and the ASG Steering Committee (to review requirements for and to review progress toward first tranche disbursement) Held	06/94
First Annual Report of the ASG Steering Committee Issued by the Ministry of Finance	07/94
First Annual Training Plan for UPA Staff Approved by USAID/Dakar	08/94
First Disbursement Request Issued by the Ministry of Finance	09/94
First Verification Report Issued by the UPA	09/94
First Confirmation Report Issued by USAID/Dakar	10/94
Contract for One-time Commodity Support to UPA Signed by USAID	10/94
Technical Assistance (for UPA) Buy-in/Contract Approved by USAID/Dakar	11/94
Contract for Domestic Resource Cost Studies (first of 3 Surveys to be Conducted Once Every Two Years Starting 01/95) Signed by USAID/Dakar	11/94
Conditions Precedent to First Dollar Resource Transfer Met	11/94
Second Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	12/94
Contract for Farm Income Surveys (first of 8 semi-annual surveys to be conducted 05/95) Signed by USAID/Dakar	02/95
Second Meeting between USAID and the ASG Steering Committee (to review requirements for and to review progress toward first tranche disbursement) Held	02/95
Second Annual Report of the ASG Steering Committee Issued by the Ministry of Finance	02/95
Second Disbursement Request Issued by the Ministry of Finance	03/95
Second Verification Report Issued by the UPA	03/95
Second Confirmation Report Issued by USAID/Dakar	04/95
Conditions Precedent to Second Dollar Resource Transfer Met	05/95
Third Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	06/95
Second Annual Training Plan for UPA Staff Approved by USAID/Dakar	08/95

Fourth Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	12/95
Mid-term In-house Evaluation Completed	12/95
Third Meeting between USAID and the ASG Steering Committee (to review requirements for and to review progress toward first tranche disbursement) Held	02/96
Third Annual Report of the ASG Steering Committee Issued by the Ministry of Finance	02/96
Third Disbursement Request Issued by the Ministry of Finance	03/96
Third Verification Report Issued by the UPA	03/96
Third Confirmation Report Issued by USAID/Dakar	04/96
Fifth Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	06/96
Third Annual Training Plan for UPA Staff Approved by USAID/Dakar	08/96
Sixth Semi-annual USAID/UPA Studies Agenda-Setting Exercise Completed	12/96
Final External Evaluation Report Completed	06/97
Final Farm Income Survey Conducted	11/98
Final Domestic Resource Cost Study Conducted	01/99
End of Program	02/99

#### IV. The Amended Disbursement Schedule

Substantive aspects of the disbursement schedule, as described in the original PAAD, also will not change. However, the timing will be different. The amended disbursement schedule will reflect not only the delays caused by the devaluation but also the subsequent acceleration attendant upon this amendment.

USAID/Dakar now anticipates disbursement of the first tranche in November, 1994. More important, USAID/Dakar anticipates that most of the substantive policy reform measures described as (amended) first tranche conditions will have been taken before the end of July, 1994. USAID/Dakar anticipates that, of all the first tranche conditions, only the condition that the GOS shall develop and adopt the restructuring plan for the CPSP will not have been met by the end of July.

As a consequence, the impact of the program on the paddy farmers and on the budget of the GOS will be felt earlier than had been anticipated. Moreover, having taken the difficult policy decisions associated with the first tranche, the GOS will find that the conditions precedent to disbursement of tranche two are relatively easy to meet. USAID/Dakar anticipates accelerated compliance with this set of conditionalities. The revised non-project assistance disbursement schedule is shown in Table 2, below.

Table 2: NPA Disbursement Schedule

<u>Item</u>	<u>Targets Establ'd</u>	<u>Targets Met</u>	<u>Amount of Disbursement: (\$000)</u>	<u>Approximate Date of Disbursement</u>
Tranche 1	6/94	9/94	11,000	10/94
Tranche 2	2/95	4/95	10,000	5/95
Tranche 3	2/96	4/96	10,000	5/96
Summary	Annually	Annually	31,000	Annually

## V. Conditions and Verification Measures

### A. Amended Conditionalities

The amended conditionalities of the RSA program are as follows (amended language is in **bold**; references in the original conditionalities, under tranches 2 and 3, to subsidies to qualifying private mills are **deleted**):

#### Conditions Precedent to First Disbursement

Prior to the first disbursement of Program funds in the amount of **Eleven Million U.S. Dollars (\$11,000,000)**, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree to in writing, furnish to USAID, in form and substance satisfactory to USAID:

(a) An opinion of counsel acceptable to USAID that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

(b) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 7.9, and of any additional representatives, together with a specimen signature of each person specified in such statement.

(c) The name, address and account number of the bank into which the dollars under this Grant will be deposited;

(d) The names, titles and affiliations of the members of the Steering Committee for the Rice Structural Adjustment program (RSA Steering Committee);

(e) With the intention of eventually eliminating all administered prices for rice:

i. Evidence that, on or before June 30, 1994, the GOS has eliminated all administered, reference or indicative farm paddy prices for rice and that the farm paddy rice is determined by market forces;

ii. Evidence that the GOS has abolished the transport cost subsidy for broken rice in all regions except Kolda and Ziguinchor and that the final broken rice price to consumers includes the full effect of transport costs in all regions except Kolda and Ziguinchor; and

iii. Evidence that the GOS has eliminated administered prices (except wholesale broken rice in Dakar) and margins for all types of rice in all regions except Kolda and Ziguinchor by having liberalized distributors' margins in all regions excluding Kolda and Ziguinchor;

(f) With the effect of completing the disengagement from purchasing and processing local rice of the "Société Nationale d'Aménagement et d'Exploitation des Terres du Delta du Fleuve Sénégal et des Vallées du Fleuve Sénégal et de la Falémé" (SAED):

i. Evidence that, on or before June 30, 1994, the GOS has closed, sold, or transferred to the private sector all SAED mills, and

ii. Evidence that the GOS has eliminated all subsidies to private mills;

(g) With the intention of eventually completely restructuring the "Caisse de Péréquation et de Stabilisation des Prix" (CPSP):

i. Evidence that the GOS has developed and adopted the restructuring plan for the CPSP;

ii. Evidence that the CPSP has disengaged from purchasing and distributing local rice; and

iii. Evidence that the CPSP has extended its rice market monitoring measures to all regions.

#### Conditions Precedent to Second Disbursement

Prior to the second disbursement of Program funds in the amount of Ten Million U.S. Dollars (\$10,000,000), or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree to in writing, furnish to USAID, in form and substance satisfactory to USAID:

(a) With the intention of eventually eliminating all administered prices for rice:

i. Evidence that the GOS has abolished the transport cost subsidy for broken rice in Kolda and Ziguinchor and that the final broken rice price to consumers in all regions includes the full effect of transport costs; and

ii. Evidence that the GOS has eliminated administered prices (except wholesale broken rice in Dakar) and margins for all types of rice in all regions by liberalizing distributors' margins in Kolda and Ziguinchor;

**(b). [Deleted and original (c) re-labeled (b)]**

(b) With the intention of eventually completely restructuring CPSP:

i. Evidence that the CPSP has fully implemented Phase I of its reorganization plan (Phase I includes those changes in the organization and operations of the CPSP that precede or are undertaken simultaneously with the relevant reforms identified as conditions precedent to disbursement of the first and second tranches);

ii. Evidence that the CPSP has disengaged from all internal distribution of all types of rice, except in the regions of Kolda and Ziguinchor;

iii. Evidence that the CPSP has closed all its regional warehouses, except in the regions of Kolda, Ziguinchor and Dakar;

iv. Evidence that the GOS has permitted the private sector to import broken rice; and

v. Evidence that the CPSP is not involved in any way in the importation of any type of rice except broken rice.

Conditions Precedent to Third Disbursement

Prior to the third disbursement of Program funds in the amount of Ten Million U.S. Dollars (\$10,000,000), or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree to in writing, furnish to USAID, in form and substance satisfactory to USAID:

(a) With the effect of eliminating all administered prices of rice, evidence that the GOS has abolished the administered wholesale price for broken rice in Dakar;

**(b). [Deleted and original (c) re-labeled (b)]**

(b) With the effect of completely restructuring CPSP:

- i. Evidence that the CPSP has completely implemented its reorganization plan;
- ii. Evidence that the CPSP has disengaged from all internal distribution of rice in the regions of Kolda and Ziguinchor;
- iii. Evidence that the CPSP has closed all its regional warehouses in the regions of Kolda, Ziguinchor and Dakar; and
- iv. Evidence that the activities of CPSP are limited to (1) monitoring the rice sector, (2) contracting with the private sector for broken rice imports only, under emergency conditions only, and (3) contracting with the private sector for the management of security stocks of rice on behalf of the CPSP.

#### B. Amended Verification Measures

The amended verification measures of the RSA program are as follows (amended language is in bold; references in the original verification measures, under tranches 2 and 3, to subsidies to qualifying private mills are deleted):

The GOS and USAID agree to the following verification measures:

1. To satisfy the conditions precedent to the first disbursement
  - a. With the intention of eventually eliminating all administered prices for rice:
    - publication, on or before June 30, 1994, of an official notice from the GOS Ministry of Agriculture announcing a free market price for paddy rice;
    - widespread dissemination of that notice in newspapers and on the radio;
    - submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying the effective implementation of the establishment of the free market price for paddy rice;
    - publication of a decree removing all controls on administered prices, except for the wholesale price of broken rice in Dakar, in all regions excluding the regions of Kolda and Ziguinchor;
    - submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that administered prices, except for the wholesale price of broken rice in Dakar, are eliminated and that effective prices vary depending on market

conditions in all the regions of Senegal excluding the regions of Kolda and Ziguinchor; and

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the GOS has eliminated all administered prices (except wholesale price of broken rice in Dakar) and all administered margins for all types of rice in all regions excluding the regions of Kolda and Ziguinchor.

b. With the effect of completing SAED's disengagement from purchasing and processing local rice:

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that, effective on or before June 30, 1994, SAED is no longer purchasing or processing local rice; and

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the GOS has eliminated all subsidies to private mills;

c. With the intention of eventually completely restructuring the CPSP:

-- formal adoption by the GOS, and formal acceptance by USAID, of a plan to restructure the CPSP;

-- publication of a decree prohibiting the CPSP from purchasing or distributing local rice;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP is no longer purchasing or distributing local rice;

-- announcement by the CPSP that it has extended its rice market monitoring measures to all regions.

2. To satisfy the conditions precedent to the second disbursement:

a. With the intention of eventually eliminating all administered prices for rice (with the adoption of these conditions, the only remaining administered price in the rice markets of Senegal is the wholesale price of imported broken rice in the Dakar region):

-- publication of a decree notifying transporters on behalf of

CPSP of the elimination of the transport cost subsidy for broken rice in Kolda and Ziguinchor;

-- submission of the relevant accounts of the CPSP confirming that the transport cost subsidy for broken rice has been eliminated in the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying the effective elimination of any kind of transport cost subsidy on broken rice in the regions of Kolda and Ziguinchor;

-- publication of a decree removing all administered prices on all types of rice (explicitly including broken rice) in the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, identifying the trend of rice prices in the regions of Kolda and Ziguinchor; and

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying the effective elimination of all administered prices (except wholesale price of broken rice in Dakar) and all administered margins for all types of rice in all regions.

**(b). [Deleted and original (c) re-labeled (b)]**

b. With the intention of eventually completely restructuring the CPSP:

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP has fully implemented Phase I of its reorganization plan (Phase I includes those changes in the organization and operations of the CPSP that precede or are undertaken simultaneously with the relevant reforms identified as conditions precedent to disbursement of the first and second tranches);

-- publication of a decree prohibiting the CPSP from the internal distribution of all types of rice, except in the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP is no longer distributing any rice in any region of Senegal excluding the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP has closed all its regional warehouses in all regions of Senegal excluding the regions of Kolda, Ziguinchor and Dakar;

-- publication of a decree permitting the private sector to import broken rice by subcontracting with the CPSP;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, describing the competitive mechanism used for broken rice imports;

-- submission to the Director of USAID/Dakar of copies of three signed subcontracts awarded under that mechanism;

-- publication of a decree prohibiting the CPSP from the importation of any rice except broken rice; and

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, (1) verifying that the private sector controls all imports of non-broken rice into Senegal and (2) describing in detail the role of the GOS (explicitly including that of the Comité d'Agrement et de Suivi des Opérations portant sur le riz) in monitoring or otherwise interacting with the private importers of non-broken rice.

3. To satisfy the conditions precedent to the third disbursement

a. With the effect of eliminating all administered prices for rice:

-- publication of a decree abolishing the administered wholesale price for broken rice in Dakar; and

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the GOS has eliminated all administered prices (specifically including the wholesale price of broken rice in Dakar) and all administered margins for all types of rice in all regions of Senegal;

(b). [Deleted and original (c) re-labeled (b)]

b. With the effect of completely restructuring CPSP:

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP has completely implemented its reorganization plan;

-- publication of a decree prohibiting the CPSP from the internal distribution of all types of rice in all regions including the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP is no longer distributing any rice in any region of Senegal including the regions of Kolda and Ziguinchor;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP has closed all its regional warehouses in all regions of Senegal including the regions of Kolda, Ziguinchor and Dakar;

-- publication of a decree limiting the activities of the CPSP in the rice sector to (1) monitoring, (2) contracting with the private sector for broken rice imports only, under emergency conditions only, and (3) contracting with the private sector for the management of security stocks of rice on behalf of the GOS;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, verifying that the CPSP is engaged only in (1) monitoring the rice sector, (2) contracting with the private sector for broken rice imports under emergency conditions only, and (3) contracting with the private sector for the management of security stocks of rice on behalf of the GOS;

-- submission to the Director of USAID/Dakar of a report in form and substance satisfactory to USAID, signed by the Minister of Agriculture, (1) verifying that the private sector controls all imports of all kinds of rice into Senegal, (2) describing in detail the revised responsibilities of the Comité d'Agrément et de Suivi des Opérations portant sur le riz making the responsibilities of that committee consistent with the new responsibilities of the CPSP, and (3) describing in detail all aspects of the role of the GOS in monitoring or otherwise interacting with the private importers of rice.

## Annex 1. Program Policy Matrix (Program Logic)

Senegal Rice Structural Adjustment Program (685-0297 & 685-0301)					
Program Purpose: Increase the Incomes of Farmers Who Currently Produce Paddy Rice for the Internal Senegalese Market Through the Liberalization of Rice Marketing and Processing					
Program Area	Tranche 1 (Conditionality)	Tranche 2 (Conditionality)	Tranche 3 (Conditionality)	Program Indicators	Impact Indicators
Eliminate administered prices for rice.	Eliminate administered farm price for paddy.			<ul style="list-style-type: none"> <li>Public announcement of a free market paddy price (millgate).</li> <li>Official documents (arretes, decrets, etc) eliminating wholesale and retail prices and margins on broken rice.</li> </ul>	<ul style="list-style-type: none"> <li>Rice prices in regional wholesale and retail markets.</li> <li>Prices received by farmers in rice producing regions.</li> <li>Prices paid by rice mills.</li> <li>Rice and other cereal production and marketing statistics.</li> <li>Rice marketing costs.</li> <li>Farm production costs and margins.</li> </ul>
	Eliminate transport subsidy on broken rice in all regions except Ziguinchor and Kolda.	Eliminate transport subsidy on broken rice in Ziguinchor and Kolda.			
	Eliminate administered prices and margins for broken rice in all regions except Ziguinchor and Kolda and the wholesale price in Dakar.	Eliminate administered prices and fixed marketing margins for broken rice in Ziguinchor and Kolda.	Eliminate the administered wholesale price for broken rice in Dakar.		
Restructured SAED: Disengagement from all local rice purchasing and processing.	SAED divests of all rice processing facilities and purchasing activities.			<ul style="list-style-type: none"> <li>Documents indicating transfer of ownership or official closure of mills.</li> <li>SAED organization chart.</li> <li>SAED workplans</li> <li>SAED operating budget.</li> </ul>	<ul style="list-style-type: none"> <li>Number, location, capacity and operating rates of private rice mills.</li> <li>Paddy assembly cost.</li> <li>Private mill operating costs and margins.</li> </ul>
	Eliminate all subsidies to private rice mills.				

Restructured CPSP:  Disengagement from rice imports and from internal distribution.	CPSP restructuring plan completed and adopted by the GOS.	Phase I reorganization completed.	CPSP reorganization completed.	<ul style="list-style-type: none"> <li>• CPSP study terms-of-reference.</li> <li>• CPSP study recommendations.</li> <li>• CPSP reorganization Plan.</li> <li>• Decree reorganizing CPSP.</li> <li>• CPSP organization chart.</li> <li>• CPSP budget.</li> <li>• CPSP-private sector contracts:               <ul style="list-style-type: none"> <li>- security stock management;</li> <li>- broken rice imports.</li> </ul> </li> <li>• CPSP sector monitoring reports.</li> <li>• Decree(s) establishing conditions and regulations for private imports of broken rice.</li> </ul>	<ul style="list-style-type: none"> <li>• Rice imports.</li> <li>• Import duties.</li> <li>• World market prices (CIF).</li> <li>• Regional rice distribution.</li> <li>• Number of rice wholesalers.</li> <li>• Number, frequency, and volume of ship-side rice purchases.</li> <li>• Number of private sector importers of broken rice.</li> </ul>
	CPSP disengaged from all local rice purchase and distribution.	CPSP disengaged from internal distribution of broken rice in all regions except Kolda and Ziguinchor.	CPSP disengaged from internal rice distribution in Ziguinchor and Kolda.		
		CPSP warehouses closed in all regions except Ziguinchor, Kolda and Dakar.	CPSP warehouses closed in Ziguinchor, Kolda and Dakar.		
		Authorize private sub-contractor import of broken rice.	CPSP disengagement from all broken rice imports, except under emergency conditions.		
	Rice markets in all regions monitored by CPSP				
Enable the UPA of the Ministry of Agriculture to identify and monitor policy reforms in the rice sub-sector.	Develop analytic methodology, workplans and schedules for program impact monitoring and reporting and related studies; and issue first policy implementation verification report.	Issue second policy implementation verification report.	Issue third policy implementation verification report.	<ul style="list-style-type: none"> <li>• Workplans.</li> <li>• Annual Reports.</li> <li>• GOS budget indicating adequate support to UPA.</li> </ul>	<ul style="list-style-type: none"> <li>• Technical presentation of RSA program monitoring reports and related studies at RSA Steering Committee level.</li> </ul>

PROGRAM DESIGN SUMMARY  
LOGICAL FRAMEWORK

Program Title & Number: Senegal Rice Structural Adjustment Program (685-0297, 685-0301) From FY 1994 to FY 1998  
Total US Funding: \$30 million; Date Prepared: 11/18/93

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>A. <u>Program of Sector Goal: The broader objective to which this program contributes.</u></p> <p>To increase private incomes through the liberalization of agricultural markets.</p>	<p><u>Measures of Goal Achievement:</u></p> <ul style="list-style-type: none"> <li>-Harvesting and marketing of farm products increased by 3%.</li> <li>-Farmer per capita incomes from marketing of farm products increased by 6%.</li> </ul>	<ul style="list-style-type: none"> <li>-GOS statistical records, agricultural reports.</li> <li>-Marketing studies.</li> <li>-Donors' economic reports.</li> <li>-USAID's economic and agricultural assessments.</li> </ul>	<p><u>Assumptions for achieving goal targets:</u></p> <ul style="list-style-type: none"> <li>-No drastic deterioration of climate, rainfall and other natural environmental factors.</li> <li>-No dramatic disruptions in market orientations</li> <li>-Prices of farm products do not shift substantially.</li> <li>-GOS maintains commitment to implement ag policy reforms.</li> </ul>
<p>B. <u>Program Purpose:</u></p> <p>To increase incomes of farmers who currently produce paddy rice for the internal Senegalese market through the liberalization of rice marketing and processing.</p>	<p><u>Conditions that will indicate purpose has been achieved. End of program status:</u></p> <ul style="list-style-type: none"> <li>-Incomes of farmers marketing paddy rice at start of program increased by 10%;</li> <li>-Greater degree of efficiency in rice marketing and processing ;</li> <li>-State monopolies on rice marketing and processing eliminated;</li> <li>-Rice pricing policy liberalized.</li> </ul>	<ul style="list-style-type: none"> <li>-GOS agricultural reports, evaluations;</li> <li>-USAID's surveys, assessments and studies;</li> <li>-Import trade statistics;</li> <li>-UPA reports;</li> <li>-SAED reports;</li> <li>-Marketing studies;</li> <li>-Published regulations;</li> <li>-Private sector share in commodity trade.</li> </ul>	<p><u>Assumptions for achieving purpose:</u></p> <ul style="list-style-type: none"> <li>-Continued GOS emphasis on private sector development and state disengagement from rice subsector.</li> <li>-Private sector willingness to invest in marketing and processing.</li> <li>-Financing available.</li> </ul>

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<p>C. <u>Outputs:</u>            1. Liberalization of rice prices and privatization of rice marketing and processing:                a. Liberalization of internal rice pricing policy.</p>	<p>-All administered rice prices eliminated in all regions of Senegal;            -Rice transport perequation eliminated in all regions of Senegal;            -Rice distributors' fixed margins eliminated in all regions of Senegal</p>	<p>-GOS decree, published regulations, announcements, Min. of AG report;            -Market surveys, market prices; UPA reports, CPSP accounting records.</p>	<p>-GOS is still committed to macro-economic policy reform.            -CPSP restructuring study completed and implemented;            -SAED still committed to fully implement IVth "lettre de Mission";            -Rice paddy production is adequate;            -Private sector investors available;            -Private sector financing available.</p>
<p>    b. Liberalization and privatization of domestic rice marketing and processing;</p>	<p>-CPSP disengaged from purchasing and distributing local rice;            -SAED disengaged from purchasing and processing local paddy rice;            -GOS subsidies to private rice mills eliminated.</p>	<p>-GOS decrees, published regulations;            -Geographic price differentials, rice market surveys;            -GOS/Min. of Ag. reports;            -SAED rice mills sold to private sector or closed;            -Private rice mills operated in Senegal River area;            -CPSP records, SAED records;            -100% of local rice processed and marketed by the private sector;            -CPSP/ SAED activities, staff size;</p>	<p>-Private sector activity in rice storage, transport and marketing.</p> <p>-GOS decree;            -Private sector activity in rice imports;            -Rice import records, UPA reports.</p> <p>-UPA reports, contractors reports, GOS and USAID records.</p> <p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>
<p>    c. Liberalization and privatization of broken rice imports;</p>	<p>-20 people trained by PACD: 5 in economic analysis; 5 in policy analysis; 5 in policy presentation; 5 in program planning.</p>	<p>-Private sector activity in rice storage, transport and marketing.</p> <p>-GOS decree;            -Private sector activity in rice imports;            -Rice import records, UPA reports.</p>	<p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>
<p>2. Improved ability of UPA in rice subsector policy formulation, monitoring and assessment:</p>	<p>-Completion of the following activities before the PACD: 15 policy workshops; 10 policy seminars; 3 policy presentations.</p>	<p>-UPA reports, contractors reports, GOS and USAID records.</p>	<p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>
<p>    a. Additional policy formulating, monitoring, and evaluation skills provided to UPA staff;</p>	<p>-8 farm household income studies; 4 domestic resource cost studies; 3 studies on the private rice processing industry; 3 studies on private rice trading industry; 3 sets of the private rice subsector policy verification studies; 3 financial audits and 1 end-of-program evaluation.</p>	<p>-UPA reports, contractors reports, GOS and USAID records.</p>	<p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>
<p>    b. An operational rice subsector policy program established at UPA;</p>	<p>-8 farm household income studies; 4 domestic resource cost studies; 3 studies on the private rice processing industry; 3 studies on private rice trading industry; 3 sets of the private rice subsector policy verification studies; 3 financial audits and 1 end-of-program evaluation.</p>	<p>-UPA reports, contractors reports, GOS and USAID records.</p>	<p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>
<p>    c. An operational rice subsector policy impact monitoring system jointly managed by UPA and USAID/Senegal.</p>	<p>-8 farm household income studies; 4 domestic resource cost studies; 3 studies on the private rice processing industry; 3 studies on private rice trading industry; 3 sets of the private rice subsector policy verification studies; 3 financial audits and 1 end-of-program evaluation.</p>	<p>-UPA reports, contractors reports, GOS and USAID records.</p>	<p>-Suitable staff exist at UPA and are available for training; staff remains at UPA after completing training;            -USAID, Contractors and UPA find suitable personnel to complete monitoring, evaluations and studies/surveys.</p>

<p><b>D. Inputs:</b></p> <p>- \$31 million in trached program grants disbursed to the GOS;</p> <p>- \$2 million to finance commodities, training and technical assistance for UPA, and to support monitoring surveys, studies, audits and evaluation of the program.</p>	<p><b>Implementation Target (type and quantity):</b></p> <p>- \$11 million _____ 1994</p> <p>- \$10 million _____ 1995</p> <p>- \$10 million _____ 1996</p> <p>- \$592 thousand _____ 1994</p> <p>- \$382 thousand _____ 1995</p> <p>- \$306 thousand _____ 1996</p> <p>- \$461 thousand _____ 1997</p> <p>- \$259 thousand _____ 1998</p>	<p>-USAID disbursement records;</p> <p>-GOS disbursement records;</p> <p>-USAID contract records;</p> <p>-Studies, evaluation and audit reports.</p>	<p><b>Assumptions for providing inputs:</b></p> <p>-GOS meets conditions precedent;</p> <p>-AID Washington allocations arrive in a timely fashion.</p>
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Annex 3		Benefit/Cost Calculations for the Senegal Rice Sector Adjustment Program:								Case 1a: Before Amendment (5%)				
Assumptions														
Discount rate.....		15.0%		(a1)										
Exchange rate FCFA/\$:.....		560		(a2)										
Percent of transport subsidy saved:.....		66.7%		(a3)										
Percent of Processing cost saved:.....		66.7%		(a4)										
Percent of SAED subsidy saved: .....		66.7%		(a5)										
Misallocated Resource (Mil. FCFA):.....		25,000		(a6)										
Direct Program Benefits										Improved Resource Use		total		
Year	Eliminate	Reduced	Reduced	Total	Adjusted Total		Cost		Direct Program Benefits	Resource Recovery			Benefits	
	Transport	Milling	Subsidy	Gross			Grant	Project			FCFA	\$		\$
	Subsidy	Cost	to SAED											
	(FCFA)	(FCFA)	(FCFA)	(FCFA)	(FCFA)	\$	\$	\$	\$	(%)	(K)	(L)	(M)	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	
1	380	300	1,100	1,780	1,187	2,120	8.0	0.592	-6.472	0.0	0	0.000	-6.472	
2	766	300	1,400	2,466	1,645	2,937	10.0	0.357	-7.420	0.0	0	0.000	-7.420	
3	766	300	1,800	2,866	1,912	3,414	10.0	0.381	-6.967	0.0	0	0.000	-6.967	
4	766	300	1,800	2,866	1,912	3,414	0.0	0.438	2.978	5.0	1,250	2,232	5.210	
5	766	300	1,800	2,866	1,912	3,414	0.0	0.234	3.180	5.0	1,250	2,232	5.412	
6	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	5.0	1,250	2,232	5.646	
7	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	5.0	1,250	2,232	5.646	
8	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	5.0	1,250	2,232	5.646	
9	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	5.0	1,250	2,232	5.646	
10	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	5.0	1,250	2,232	5.646	
NPV						17.994		25.888				7.022		

Notes:

A, B and C are taken from Annex 9; D = A + B + C.  
 E = a3\*A + a4\*B + a5\*C.  
 F = E/a2.

G and H are from the logframe.  
 I = F - (G + H)  
 K = a6\*J

L = K/a2  
 M = I + L  
 B/C = (7.022 + 17.994)/25.868 = 0.97

W

Annex 3		Benefit/Cost Calculations for the Senegal Rice Sector Adjustment Program:								Case 1b: Before Amendment (10%)			
Assumptions													
	Discount rate.....	15.0%	(a1)										
	Exchange rate FCFA/\$:.....	560	(a2)										
	Percent of transport subsidy saved:.....	66.7%	(a3)										
	Percent of Processing cost saved:.....	66.7%	(a4)										
	Percent of SAED subsidy saved: .....	66.7%	(a5)										
	Misallocated Resource (Mil. FCFA):.....	25,000	(a6)										
Direct Program Benefits													
Year	Eliminate Transport Subsidy (FCFA)	Reduced Milling Cost (FCFA)	Reduced Subsidy to SAED (FCFA)	Total Gross (FCFA)	Adjusted Total		Cost		Direct Program Benefits	Improved Resource Use		total Benefits	
					(FCFA)	\$	Grant	Project		Resource Recovery	(\$)		(\$)
					(A)	(B)	(C)	(D)		(E)	(F)		(G)
1	380	300	1,100	1,780	1,187	2,120	8.0	0.592	-6.472	0.0	0	0.000	-6.472
2	766	300	1,400	2,466	1,645	2,937	10.0	0.357	-7.420	0.0	0	0.000	-7.420
3	766	300	1,800	2,866	1,912	3,414	10.0	0.381	-6.967	0.0	0	0.000	-6.967
4	766	300	1,800	2,866	1,912	3,414	0.0	0.436	2.978	10.0	2,500	4.464	7.442
5	766	300	1,800	2,866	1,912	3,414	0.0	0.234	3.180	10.0	2,500	4.464	7.644
6	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878
7	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878
8	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878
9	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878
10	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878
NPV						17.994		25.868				14.044	

Notes:

A, B and C are taken from Annex 9; D = A + B + C. G and H are from the logframe.  
 E = a3\*A + a4\*B + a5\*C. I = F - (G + H)  
 F = E/a2. K = a6\*J

L = K/a2

M = I + L

B/C = (14.044 + 17.994)/25.868 = 1.24

Annex 3		Benefit/Cost Calculations for the Senegal Rice Sector Adjustment Program:								Case 2a: After Amendment (5%)				
Assumptions														
	Discount rate.....	15.0%	(a1)											
	Exchange rate FCFA/\$:.....	560	(a2)											
	Percent of transport subsidy saved:.....	66.7%	(a3)											
	Percent of Processing cost saved:.....	66.7%	(a4)											
	Percent of SAED subsidy saved: .....	66.7%	(a5)											
	Misallocated Resource (Mil. FCFA):.....	25,000	(a6)											
Direct Program Benefits										Improved Resource Use		total		
Year	Eliminate	Reduced	Reduced	Total	Adjusted Total		Cost		Direct Program Benefits	Resource Recovery			Benefits	
	Transport Subsidy (FCFA)	Milling Cost (FCFA)	Subsidy to SAED (FCFA)	Gross (FCFA)	(FCFA)	\$	Grant \$	Project \$			(%)	(FCFA)		\$
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)			(I)	(J)		(K)
1	380	300	1,800	2,480	1,654	2,954	11.0	0.592	-8.638	0.0	0	0.000	-8.638	
2	766	300	1,800	2,866	1,912	3,414	10.0	0.357	-6.943	5.0	1,250	2,232	-4,711	
3	766	300	1,800	2,866	1,912	3,414	10.0	0.381	-6.967	5.0	1,250	2,232	-4,735	
4	766	300	1,800	2,866	1,912	3,414	0.0	0.436	2,978	5.0	1,250	2,232	5,210	
5	766	300	1,800	2,866	1,912	3,414	0.0	0.234	3,180	5.0	1,250	2,232	5,412	
6	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3,414	5.0	1,250	2,232	5,646	
7	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3,414	5.0	1,250	2,232	5,646	
8	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3,414	5.0	1,250	2,232	5,646	
9	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3,414	5.0	1,250	2,232	5,646	
10	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3,414	5.0	1,250	2,232	5,646	
NPV						19.242		28.868				10.651		

## Notes:

A, B and C are taken from Annex 9; D = A + B + C. G and H are from the logframe.  
 E = a3\*A + a4\*B + a5\*C. I = F - (G + H)  
 F = E/a2. K = a6\*J

L = K/a2

M = I + L

B/C = (10.651 + 19.242)/28.868 = 1.04

Annex 3		Benefit/Cost Calculations for the Senegal Rice Sector Adjustment Program:								Case 2b: After Amendment (10%)				
Assumptions														
	Discount rate.....	15.0%	(a1)											
	Exchange rate FCFA/\$:.....	560	(a2)											
	Percent of transport subsidy saved:.....	66.7%	(a3)											
	Percent of Processing cost saved:.....	66.7%	(a4)											
	Percent of SAED subsidy saved: .....	66.7%	(a5)											
	Misallocated Resource (Mil. FCFA):.....	25,000	(a6)											
Direct Program Benefits										Improved Resource Use		total		
Year	Eliminate	Reduced	Reduced	Total	Adjusted Total		Cost		Direct	Resource	Recovery	(FCFA)	\$	\$
	Transport	Milling	Subsidy	Gross	(FCFA)	\$	Grant	Project	Program					
	Subsidy	Cost	to SAED	(FCFA)			\$	\$	\$	\$	Benefits			
	(FCFA)	(FCFA)	(FCFA)	(FCFA)	(FCFA)	\$	\$	\$	\$	(%)	(K)	(L)	(M)	
1	380	300	1,800	2,480	1,654	2,954	11.0	0.592	-8.638	0.0	0	0.000	-8.638	
2	766	300	1,800	2,866	1,912	3,414	10.0	0.357	-6.943	5.0	1,250	2.232	-4.711	
3	766	300	1,800	2,866	1,912	3,414	10.0	0.381	-6.967	10.0	2,500	4.464	-2.503	
4	766	300	1,800	2,866	1,912	3,414	0.0	0.436	2.978	10.0	2,500	4.464	7.442	
5	766	300	1,800	2,866	1,912	3,414	0.0	0.234	3.180	10.0	2,500	4.464	7.644	
6	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878	
7	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878	
8	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878	
9	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878	
10	766	300	1,800	2,866	1,912	3,414	0.0	0.000	3.414	10.0	2,500	4.464	7.878	
NPV						19.242		28.868					19.361	

Notes:

A, B and C are taken from Annex 9; D = A + B + C.

E = a3\*A + a4\*B + a5\*C.

F = E/a2.

G and H are from the logframe.

I = F - (G + H)

K = a6\*J

L = K/a2

M = I + L

B/C = (19.361 + 19.242)/28.868 = 1.34

d/c

File 0297

UNCLAS AIDAC SECSTATE 262053

ACTION: AID-1  
INFO: RIG-1 DCM-1 AMB-1 ECON-1

DISTRIBUTION: AID  
CHARGE: AID

VZCZCDK0060  
OO RUEHDK  
DE RUEHC #2053 2702347  
ZNR UUUUU ZZH  
O 272348Z SEP 94  
FM SECSTATE WASHDC  
TO AMEMBASSY DAKAR IMMEDIATE 3636 ←  
BT  
UNCLAS STATE 262053

Date Rec'd	SEP. 28 1994
MRN	
Action Taken	N/A
Date	28 Sep 94
Signature	[Signature]

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AIDAC

E.O. 12356: N/A  
TAGS:  
SUBJECT: RICE STRUCTURAL ADJUSTMENT, 685-0297/0301

CN FOR SUBJECT PROJECT FOR U.S. DOLS 16,000,000 EXPIRED  
WITHOUT OBJECTION ON SEPTEMBER 27, 1994. OBLIGATION MAY  
NOW BE INCURRED.  
CHRISTOPHER  
BT  
#2053

DUE	9-29
ACTION	PRM
INFO	
DIR	
DDIR	—
EXO	
PRM	
CFM	—
RLA	
RCO	
PDO	
ANR	
HPNO	
RIG	
EMB	
CHRON	—
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UNCLAS AIDAC SECSTATE 262053

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