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United States Agency for  
International Development  
Senegal

Program Assistance Completion Report  
Economic Support Fund VI  
(685-0290)

Prepared by: PRM:Ousmane Sané

Approved by: DDIR:Douglas Sheldon

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### Acronyms used in this report

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**BCEAO:** Banque Centrale des Etats d'Afrique de l'Ouest  
**CCCE:** Caisse Centrale de Coopération Economique  
**CFA:** Communauté Financière Africaine  
**CNCAS:** Caisse Nationale de Credit Agricole du Sénégal  
**CP:** Condition Precedent  
**CPSP:** Caisse de Péréquation et de Stabilisation des Prix  
**CSS:** Compagnie Sucrière Sénégalaise  
**ESF:** Economic Support Fund  
**GMD:** Grands Moulins de Dakar  
**GOS:** Government of Senegal  
**IMF:** International Monetary Fund  
**ONCAD:** Office National de Cooperation et d'Assistance au Développement  
**PACD:** Program Assistance Completion Date  
**FPF :** Policy Framework Paper  
**PACR:** Program Assistance Completion Report  
**PIL:** Project Implementation Letter  
**PRM:** Office of Program Management  
**RIG:** Regional Inspector General  
**SAED:** Société d'Aménagement et d'Exploitation des Terres du Delta du Fleuve Sénégal et de la Falémé  
**SAL:** Structural Adjustment Loan  
**SONACOS:** Société Nationale de Commercialisation des Oléagineux du Sénégal  
**USAID:** United States Agency for International Development  
**SEDES:** Société d'Etudes pour le Développement Economique et Social

It was subsequently amplified by the Agricultural Policy Statement and the Cereals Plan submitted to the donors' meeting on the Agricultural Sector in June 1986. A Policy Framework Paper (PFP) dated September 1986 was prepared by the GOS in conjunction with the World Bank and the IMF as the basis for the first IMF structural adjustment facility to Senegal. The PFP incorporated a set of supply-side and demand management policies designed to alleviate the macroeconomic and structural problems in the economy, thereby promoting balance of payments adjustment and economic growth.

The PFP covered the following areas:

- the GOS public investment program;
- agricultural policy;
- industrial policy;
- energy policy;
- fiscal policy;
- parapublic sector reform;
- monetary & credit policy;
- external debt management.

In the agriculture sector, the PFP encompassed two key strategies: (a) the promotion of private sector initiative through appropriate pricing and other incentive policies and (b) a progressive withdrawal of the government and public agencies from direct involvement in production activities.

It was in this context that USAID formulated a multi-year ESF program including ESF IV, V, and VI which focussed on agriculture sector policy reform.

## II. Program description

ESF-V has maintained the overall concept of agricultural sector reform as set out for ESF-IV but narrowed the focus to four key themes of major concern: improving policy reform management; damping consumption of imported rice; reducing agricultural sector deficits; and encouraging private sector agro-industry.

For ESF-VI, tighter focus was retained, with a change in emphasis from constraining consumption of imported rice. The policy themes were reformulated as follows: continued functioning of the GOS-USAID working group on policy reforms; maximizing resources due to the GOS Treasury; and increasing the efficiency of resource allocation in the agriculture sector.

1. Continued functioning of the GOS-USAID working group on policy reforms.

USAID planned to utilize these quaterly meetings to stress improved management of structural adjustment through maximizing resources due to the GOS Treasury and increasing the efficiency of resource allocation in the agriculture sector.

2. Reducing the net drain of agro-industry on the GOS Treasury.

ESF-VI conditionality called for maximizing the perequation on wheat imports. (Perequation is a windfall profit or loss accruing to the government, generated by the difference between the controlled wholesale price and the import price.) In 1986/87, under ESF-V, over CFAF 5 billion was generated for the GOS budget while at the same time the price of bread was reduced. ESF-VI insisted that the wheat perequation be collected promptly and that the GOS agreement with the millers be renegotiated to ensure that imports would be purchased following an international bid procedure.

ESF-VI conditionality also called for reducing agriculture sector deficits with a special focus on the oil crushing company (SONACOS), the private sugar company (CSS), and the rice milling and marketing company, (SAED).

3. Increasing the efficiency of resource allocation in the agriculture sector.

ESF-VI conditionality called for clarification of GOS rice policy. This policy had a series of built in contradictions:

- between the short term GOS concern with rice as a strategic consumer good, essential to avoiding urban tensions, and the long term GOS concern with constraining rice imports to protect local cereals and to make their processing commercially viable; and
- between keeping the consumer price for rice high for revenue purposes --through perequation-- while subsidizing local rice production, and keeping urban consumers happy.

ESF-VI required that the GOS carry out a formal review of its rice policy and prepare a statement of that policy reflecting recent changes.

ESF-VI conditionality also called for encouraging private sector agro-industry, with a particular focus on the establishment of a timetable for SAED disengagement from credit programs in the Senegal River Valley in favor of the Caisse Nationale de Cr dit Agricole (CNCAS) and other participating banks in the context of the third SAED Lettre de Mission.

### **III. Program outputs**

A. Conditions precedent to release of the first tranche, which was effected on April 1, 1989, were fulfilled as follows:

1. **Continued functioning of the GOS-USAID working group on policy reforms:** The Grantee will provide confirmation that the procedure will continue in force for holding quarterly meetings between USAID and the concerned ministries of the GOS to discuss (a) formulation and (b) implementation of structural reform.

**Action taken:** by letter dated December 23, 1988, the Ministry of Finance confirmed that the procedure would continue. A meeting took place on Dec 12, 1988 and a series of such meetings were planned.

2. **Reducing the net drain of agro-industry on the GOS Treasury:**

(1) **Maximizing perequation on wheat imports:**

the Grantee will provide evidence that:

- a. Full payment of the perequation on wheat purchased in 1987 and 1988 to date has been made;
- b. The current agreement with the millers will be terminated before October 31, 1988 and negotiations on a new agreement will be undertaken.

**Action taken:** On December 28, 1988 the Director of the Forecasting Department of the Ministry of Economy and Finance issued a letter confirming (a) full payment by the millers of the perequation on wheat purchased in 1987 and 1988; (b) termination of the agreement with the millers per a letter dated October 28, 1988 and signed by the Minister of Economy and Finance and the Minister of Industrial Development. The letter also confirmed that negotiations on a new agreement had been undertaken.

(2) Reducing agriculture sector deficits:

a. The GOS will provide to USAID the preliminary results of the SONACOS audit and peanut sector study financed by the CCCE.

**Action taken:** The preliminary results of the study were provided to USAID in November 1988.

b. The GOS will provide to USAID the preliminary results of the Arthur D. Little audit of the Compagnie Sucrière du Senegal (CSS) carried out for the GOS.

**Action taken:** The preliminary results of the audit of the CSS were provided to USAID in August 1988.

c. The third SAED Lettre de Mission will be adopted by the GOS with the approval of the donors and will have been signed by SAED and the GOS.

**Action taken:** On March 9, 1988, USAID received the third SAED Lettre de Mission adopted by the GOS with the approval of the donors and signed by SAED and the GOS on November 1987.

3. Increasing the efficiency of resource allocation in the agriculture sector.

(1) Clarification of rice policy

a. The GOS will agree to carry out an official review of its rice policy in the light of the consultant's report prepared under the terms of ESF-V, the agricultural price and incentives study by SAED financed by the World Bank and the Caisse Centrale de Coopération Economique (CCCE), and the November 1987 review of the rice import privatization experiment of March-June 1987. As part of the review, the GOS will make explicit and attempt to reconcile the competing objectives of its current price policy, among them: protection of and incentives to local production of cereals (coarse grains and rice); social impact; market liberalization; and alleviation of the GOS budget situation.

**Action taken:** On December 23, 1988, the Director of the Forecasting Department of the Ministry of Economy and Finance, issued a letter No. 296/MEF/D. PREV. confirming GOS

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agreement to carry out an official review of its rice policy in light of the consultant's report prepared under the terms of ESF-V, the agricultural price and incentives study by SEDES financed by the World Bank and the Caisse Centrale de Coopération Economique (CCCE), and the November 1987 review of the rice import privatization experiment of March-June 1987.

b. The GOS will prepare the terms of reference for a study (to be financed by USAID under ESF VI) to examine the modalities and timing of the disengagement of SAED from the milling and marketing of rice in the Senegal River Valley, as an incentive to increased paddy production and acceleration of privatization.

**Action taken:** On December 28, 1988 the GOS, with the help of USAID, completed the terms of reference of the proposed study.

(2) Encouraging private sector agro-industry

a. The GOS will prepare and present to USAID the terms of reference for a study of ways to expand private sector agro-industry in the Senegal River Valley. Such a study will take into account other on-going research related to this topic. The study will be funded under ESF-VI.

**Action taken:** The GOS with the help of USAID prepared and presented to USAID on November 30, 1988 the terms of reference of the proposed study.

b. The GOS and SAED will establish a timetable for withdrawal of SAED from credit programs in the Senegal River Valley in favor of the Caisse Nationale de Crédit Agricole Sénégalaise (CNCAS) and other participating banks in the context of the third SAED Lettre de Mission.

**Action taken:** The third SAED Lettre de Mission dated November 1987 established the timetable for withdrawal of SAED from credit programs in the Senegal River Valley in favor of the Caisse Nationale de Crédit Agricole Sénégalaise (CNCAS) and other participating banks.

B. Conditions precedent to release of the second tranche, which was disbursed on December 5, 1989, were fulfilled as follows:

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**1. Continued Functioning of GOS-USAID working group on policy reforms:**

USAID/Senegal and the GOS will hold at least one quarterly meeting on policies related to structural adjustment after release of the first tranche of ESF-VI.

**Action taken:** A meeting of GOS-USAID working group took place on October 12, 1989.

**2. Reducing the Net Drain of Agro-industry on the GOS Treasury.**

**(1) Maximizing perequation on wheat imports**

The Grantee will provide evidence that:

a. The perequation on wheat purchased in CY 1988 has been fully paid.

b. The GOS has negotiated with the millers a new agreement.

c. The reference price for the perequation on wheat imports for the period November 1, 1988 - October 31, 1989 has been calculated on the basis of the lowest world price. USAID will independently verify the international price quotations on which the reference price was set.

**Action taken:** a) By letter dated October 25, 1989, the GOS confirmed full payment by the millers of the perequation on wheat purchased in CY 1988; copies of checks issued by the millers were attached to the letter.

b) By letter dated November 20, 1989, the GOS provided evidence in annexed copies of two memoranda of agreement signed on October 25, 1989 between the GOS ministers of Economy and Finance, Industrial Development, and Commerce and the managing Directors of the two private millers.

c) By letter dated Oct 25, 1989, the GOS provided evidence that the reference price for the perequation on wheat imports for the period November 1, 1988 - October 30, 1989 was set on the basis of the lowest price, following a survey done on international markets.

Based on its own verifications through the U.S. Embassy Agricultural Attaché in Abidjan in November 1989, USAID/Senegal concluded that the GOS-proposed reference price was acceptable.

(2) Reducing agriculture sector deficits.

a. The GOS will confirm its timetable for progressive reduction and elimination of the subsidy for treatment of peanut seeds, namely (in billions of CFAF):  
1986/87: 1.0; 1987/88: 0.5; 1988/89; 0.35.

**Action taken:** By letter dated October 25, 1989, the GOS confirmed that the subsidy for treatment of peanut seeds had been budgeted for an amount limited to CFAF 350 million.

b. The GOS will approve and begin implementation of its action plan for renegotiating the special agreement with SONACOS, in light of the audit financed by the CCCE.

**Action taken:** By letter dated June 21, 1989, the Minister of Rural Development confirmed that a short term Action Plan for the peanut sector already transmitted to the donors had started being implemented by SONACOS. Confirmation was also given by the Minister of Rural Development that the result of the CCCE-funded audit would be used to prepare a medium-term action plan and renegotiate the special agreement with SONACOS.

c. The GOS (a) will review the conclusions of the A.D. Little audit of the CSS and (b) will prepare and present to USAID an action plan for dealing with the CSS.

**Action taken:** By letter dated Dec 2, 1989, the Minister of Economy and Finance transmitted a second draft of an action plan dealing with the CSS. (The first draft prepared by the GOS in November 1989 was not accepted by USAID).

3. Increasing the efficiency of resource allocation in the agriculture sector:

(1) Clarification of rice policy.

a. The GOS will prepare and present to USAID a policy statement on rice policy .

**Action taken:** By letter dated October 27, 1989 the Minister of Economy and Finance transmitted to USAID a rice policy statement signed by himself and the Minister of Rural Development.

b. The GOS will present to USAID recommendations on modalities and timing for the disengagement of SAED from the milling and primary marketing of rice in Senegal River Valley.

**Action taken:** This CP was not met, because of the late submission of a USAID-funded consultant study on privatization of rice milling and marketing. By letter dated November 20, 1989, the Minister of Finance stated that SAED disengagement and private sector development would be a major item of SAED's fourth Lettre de Mission. This CP was converted to a covenant in December 1989.

(2) Encouraging private sector agro-industry.

a. The GOS will prepare an action plan for encouraging expansion of private sector agro-industry in the Senegal River Valley.

**Action taken:** This condition precedent, tied to SAED's disengagement was not met. It was also converted to a covenant in December 1989.

b. The GOS will present to USAID confirmation of initial implementation of the plan for replacing the agricultural credit function of SAED by the CNCAS and other participating banks in the Senegal River Valley.

**Action taken:** By letter dated June 21, 1989 the Minister confirmed the replacement of the agricultural credit function of SAED by the CNCAS.

#### IV. Program Inputs

##### A. Cash grant disbursement

The first \$5.0 million tranche of the cash transfer was disbursed on April 1, 1989. CFAF 1.5 billion in counterpart funds were used to reimburse GOS payments of arrears to private sector enterprises (PIL N°. 0290-01). The disbursement of the \$4.7 million second tranche of the cash transfer was effected on December 5 1989; CFAF 1.4 billion in counterpart funds were used to reimburse GOS payments of arrears to private sector enterprises (PIL n°. 0290-02).

## **B. Studies**

In addition to the studies commissioned in support of fulfilling conditions precedent of ESF-VI, a study was carried out in 1992 to assess the ONCAD debt to the banking sector. The final report was completed in July 1993 and is being used as a basis for discussions between the GOS and commercial banks to reach a final agreement on GOS liabilities to these banks.

## **C. Technical Assistance**

The original PACD of ESF-VI was extended to December 1993; an amount of \$200,000 was used to partially fund the services of an agricultural development advisor, to pursue program-related agriculture sector analyses. These analyses contributed to shaping USAID's policy dialogue with the GOS and other donors on sector issues, including the development of the Rice Sector Adjustment grant approved in February 1994.

## **V. Lessons Learned**

### **A. Principal successes of ESF VI**

1. The policy dialogue with the GOS was instrumental in completing the program. USAID and the GOS met frequently: a) to discuss the entire range of reform issues, b) to discuss and adopt scopes of work for studies called for in the Grant Agreement and c) to negotiate ESF VI conditionality and PL 480 Title I self help measures.
2. ESF-VI succeeded in disengaging SAED from providing credit in the Senegal River Valley; SAED was replaced by CNCAS and other participating banks.
3. The wheat perequation issue was settled on USAID's terms, which led to greater transparency in wheat import transactions. This success was largely due to the persistence of the US Ambassador.
4. The cash transfers had a positive impact on the GOS budget; the local currency was used to reimburse GOS arrears owed the private sector, and helped the GOS meet IMF performance criteria.

### **B. Principal shortcomings of ESF VI**

1. ESF-VI was not successful in disengaging SAED from local rice milling and marketing, because a) the ESF-VI program overestimated the pace of the process of SAED restructuring and b) SAED was reluctant to disengage from its official rice monopoly which was one of its few sources of direct income.

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2. The action plan dealing with the promotion of the private sector in the River Valley was not completed on schedule by the GOS because the GOS did not express a strong political will to promote the private sector.

3. The second tranche of \$4.7 million initially programmed for June 1989 was finally disbursed in December 1989. Among the reasons were (a) the long delay experienced by USAID in getting from the GOS an acceptable draft action plan dealing with the sugar company (CSS) and, (b) intensive negotiation between USAID and the GOS concerning language in the GOS protocol with the millers.

Annex

RIG audit of AID's Economic Support Fund and African Economic Policy Reform in Senegal

The office of the Regional Inspector General for Audit in Dakar audited USAID's ESF V, ESF VI, ESF VII and AEPRP II programs from March 29, 1991 to November 14 1991.

Below is the summary of RIG observations and USAID/Senegal responses regarding some ESF-VI CPs.

A. RIG observations

C.P. 4. c.i.2 Requiring the GOS to present recommendations on modalities and timing for the disengagement of the SAED from milling and primary marketing of rice in the Senegal River Valley was changed to a covenant by USAID/Senegal in order to disburse the second tranche of ESF VI. This covenant had still not been met at the time of audit.

C.P. 2.4. c.ii.1 Requiring the GOS to prepare an action plan for encouraging expansion of private sector agro industry in the Senegal River Valley was changed to a covenant by USAID Senegal in order to disburse the second tranche of ESF VI. This covenant had still not been met at the time of audit.

CP 2.4.b.ii.1 Requiring the GOS to confirm its timetable for progressive reduction and elimination of the subsidy for treatment for peanut seeds was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the required actions had been taken. Underlying evidence was not documented.

B. USAID responses

CP 4.c.i.2 The draft of SAED's 4th letter of mission issued in March 1991 provided a timetable for SAED disengagement from rice milling and marketing.

Complete privatization had been planned to be effective as of June 30, 1992. The draft letter of mission was available before the audit and was provided to RIG. The Mission continues to follow the impact of this covenant, particularly by including privatization of rice marketing as a primary component of our proposed Ag Sector Grant. This program was subsequently approved under the title "Rice Sector Adjustment".

CP.2.4.c.ii.1 The draft letter of mission of SAED has in addition planned to privatize other sectors including:

- tomato production & marketing
- seed storage
- production and marketing of animal feed

The Mission continues to follow the impact of this covenant.

CP 2. 4.b.ii.1 The progressive reduction and elimination by 1989/90 of subsidy for the treatment of peanut seeds was planned under the "Plan triennal semencier" issued in 1986 . That plan was made available to RIG.

The 88/89 crop season was the last year before a complete elimination of the GOS subsidy. The GOS confirmed by letter that only 0.35 billion of CFAF was budgeted for 88/89, compared with CFAF 0.50 billion in 87/88 and CFAF 1 billion in 86/87.

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PACR Report Economic Support Fund VI (685-0290)

Clearances:

PRM: CCowey draft 5/09/94  
PRM: MNdaw AMdaw 5/20/94 See changes and comments  
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