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Senegal: 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and News Brief on Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Senegal, and the first review of the Third Annual Arrangement under the Poverty Reduction Growth Facility, and Request for Waiver of Performance Criteria, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, and the First Review under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on July 31, 2001, with the officials of Senegal on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 31, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff statement and supplementary staff statement of **September 28, 2001** updating information on recent economic developments;

- the Public Information Notice and a News Brief summarizing the **views of the Executive Board as expressed during the September 28, 2001 Executive Board discussion** of the staff report that concluded the Article IV consultation;

The document(s) listed below have been or will be separately released:

Financial System Stability Assessment
Letter of Intent*
Memorandum of Economic and Financial Policies*
Selected Issues Paper
Technical Memorandum of Understanding*

*May also be included in Staff Report.

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SENEGAL

Staff Report for the 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

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August 31, 2001

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Executive Summary

Background

A three-year arrangement under the PRGF, in an amount equivalent to SDR 107.01 million (66 percent of quota) was approved on April 20, 1998. The third annual arrangement in an amount equivalent to SDR 42.804 million was approved on February 16, 2001, and the commitment period was extended to April 19, 2002. Senegal reached the decision point under the enhanced Heavily Indebted Poor Country (HIPC) Initiative on June 21, 2000.

Recent developments

- During legislative elections in April 2001, the Senegalese Democratic Party of President Wade won almost 50 percent of the popular vote and 75 percent of the seats in the new national assembly, ending a 40-year domination of the Socialist Party.

- The new administration inherited a legacy of weak implementation of structural reforms, notably in the groundnut and energy sector. Partly due to legislative elections, there have been delays in implementing the single-rate VAT and reintroducing the pass-through mechanism for retail prices of petroleum products.

- Overall economic developments through June 2001 were broadly in line with the program and all end-March quantitative performance criteria were met. Two structural performance criteria for May 1, 2001 that were not observed were implemented with some delay. Real gross domestic product in 2000 is estimated to have grown at 5.6 percent and has continued at this pace in the first quarter of 2001. The overall fiscal deficit in 2000 (commitment basis and excluding grants) remained 0.9 percentage points below programmed levels.

- Outside the framework of the budget, serious financial imbalances have built up in two public enterprises. The debt of the public groundnut company (SONACOS) has reached unsustainable levels with some CFAF 65 billion (1.9 percent of GDP) of debts due for repayment at end-2001. The national electricity company (SENELEC) has accumulated arrears of more than CFAF 40 billion (1.2 percent of GDP) vis-à-vis petroleum companies and other suppliers.

- The national assembly approved a supplementary budget law allocating CFAF 23.4 billion of interim relief to rural infrastructure, health, education, and to support the subsidy for small bottles of butane gas used mainly by the poor.

Policy discussions and program for the remainder of 2001

- The government has developed a set of structural measures to address the problems of the groundnut sector. These include adjusting the producer price for the next campaign in line with world market prices, and withdrawal of the groundnut company from the collection and transport of groundnuts as well as the distribution of seeds and fertilizers.

- As regards SENELEC, the government has begun the process of privatization of the company with the assistance of the World Bank and is implementing structural measures to eliminate the operating deficit of the company.

- Given the importance of SONACOS and SENELEC for growth and to limit the impact of their financial difficulties on the local banking system, the program envisages budgetary support of 3 percent of GDP for the two public enterprises to reimburse their debts and arrears by end-2001. The financing will be assured through offsetting expenditure cuts and revenue measures, higher domestic borrowing, and additional external concessional loans.

- The authorities plan to adhere to their timetable for the finalization of the full PRSP by end-2001 notwithstanding delays in updating the 1994 household survey. They will also make efforts to meet the conditions for reaching the HIPC completion point, including the privatization of public enterprises.

Senegal: Selected Economic and Financial Indicators, 1998-2001

	1998	1999	2000		2001	
			Prog.	Est.	Prog.	Rev. Prog.
Real GDP	5.7	5.1	5.5	5.6	5.7	5.8
CPI (average)	1.1	0.8	0.7	0.7	2.0	3.2
Broad money	8.6	13.1	5.6	10.7	7.0	9.1
Overall fiscal balance 1/	-0.3	-1.4	-1.0	-0.2	-1.1	-3.9
(excluding grants)	-3.3	-3.5	-2.9	-2.0	-3.8	-5.8
Ext. current account bal. 2/	-4.6	-6.1	-7.0	-6.5	-4.3	-6.1
(excluding current official transfers)	-7.8	-7.9	-8.6	-8.1	-6.6	-7.5

1/ Including grants.
2/ Including current official transfers.

I. Introduction

1. The discussions for the first review of the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF)[1] and the 2001 Article IV consultations took place in Dakar during June 19–July 5, 2001, and were concluded during July 23–31, 2001 in Washington.[2] In the attached letter (Appendix I), dated August 30, 2001, and memorandum on economic and financial policies (MEFP; Appendix I, Attachment I), the Minister of Finance and Economy reviews economic developments through March 2001, outlines the measures to be implemented for the remainder of 2001, and requests waivers for the nonobservance of two structural performance criteria. The performance criteria and benchmarks for the remainder of the program are set out in a technical memorandum of understanding (TMU; Appendix I, Attachment II).

2. In concluding the 2000 Article IV consultations on June 21, 2000, Executive Directors noted that Senegal's economy was still fragile and poverty remained widespread. They stressed the need to strengthen budgetary performance, reinforce structural adjustment efforts and enhance transparency. Directors also underscored the importance of reforms in the fiscal area, notably introducing a single-rate value-added tax (VAT); reactivating the pass-through system for petroleum products; containing the deficit of the postal service; and strengthening management at the treasury. Senegal has accepted the obligations of

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[1] A three-year arrangement under the PRGF for an amount equivalent to SDR 107.01 million (66 percent of quota) was approved on April 20, 1998 (EBS/98/68, 4/6/98). To date, five disbursements totaling SDR 78.47 million have been made. The third annual arrangement was approved on February 16, 2001 (EBS/01/9, 1/31/01), together with an extension of the commitment period to April 19, 2002. Senegal reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative on June 21, 2000 (EBS/00/97, 6/2/00) and has been receiving interim relief from the Fund since September 2000 (EBS/00/184, 8/30/00 and EBS/01/14, 2/7/01).

[2] The Senegalese government was represented by Mr. Abdoulaye Diop, Minister of Economy and Finance, Mr. Cheikh Soumaré, Minister Delegate in charge of the Budget and Housing, and Mr. Seyni Ndiaye, National Director of the Central Bank of West African States (BCEAO). The staff also met with Mr. Idrissa Seck, Minister of State and Chief of Staff of President Wade, Mr. Charles Konan Banny, Governor of the BCEAO, the Ministers of Agriculture, Energy, Commerce, and Fishing, and other senior government officials. The Fund mission team comprised Mr. Basu (head), Mr. Briançon, Mr. Yao (Resident Representative), Mr. Walliser, Mr. Caupin (all AFR), Mr. Leruth (FAD), and Ms. Nunhuck (Assistant-PAR). Mr. Diogo (AFR) took a lead role during the discussions at headquarters. Mr. Guétat, Advisor to the Executive Director for Senegal, and representatives of the World Bank participated in all key policy discussions in Dakar and Washington. Mr. Basu, Mr. Leruth, and Mr. Caupin met with French officials in Paris on their way back to Washington.

Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Senegal's relations with the Fund are summarized in Appendix II.

3. The World Bank maintains an active portfolio of 21 projects in various sectors in Senegal. A trade reform and competitiveness credit ($100 million), a Social Development Fund project ($30 million), and a long-term water project ($125 million) were approved in fiscal-year 2001. Conditional on the observance of World Bank criteria, the second tranche of $50 million under the trade reform and competitiveness credit could be made available before end-December 2001. An amount of $30 million was disbursed under an energy sector adjustment credit in February 2001, with a remaining credit tranche of $45 million conditional on a satisfactory completion of the privatization of the national power company (SENELEC). An energy sector investment project, a nutrition project, and a private sector development project (pensions and social security) are in the pipeline. Senegal's relations with the World Bank are summarized in Appendix III.

4. Senegal's economic database is comprehensive but needs improvement as regards the timeliness and quality of national accounts, fiscal accounts, and balance of payments. These weaknesses do not prevent the staff from assessing broad trends but can at times hamper the timely evaluation of recent developments. In this respect, an April 2001 STA technical assistance mission on the creation of an independent National Statistical Institute recommended strengthening physical and human capital allocated to data compilation and maintenance. The authorities are also preparing to participate in the General Data Dissemination System (GDDS), which is a framework for structured statistical development; they have agreed to receive a data mission in September 2001 to prepare a report on the observation of standards and codes (ROSC). The availability of statistical indicators is summarized in Appendix IV. Fund staff also conducted the technical consultations on the outcome of past technical assistance and potential future uses, as presented in Appendix V.

II. Background and Recent Economic Developments

A. Overview of Political and Economic Developments

5. **Over the first five months of 2001, the Senegalese Democratic Party (PDS) largely completed the change in the political landscape** that had begun with the election of President Wade in March 2000. After an overwhelming approval of the new constitution by the electorate, the President dissolved the parliament and called legislative elections for April 29, 2001. The PDS won almost 50 percent of the votes and 75 percent of the seats in the new assembly, marginalizing the Socialist Party (PS), which had dominated the country since independence. A new government, which continues to be headed by Prime Minister Mrs. Mame Madior Boye, was appointed in early May. Local elections are now expected to take place in April 2002.

6. Overall economic developments through June 2001 were broadly in line with the program, and all end-March 2001 quantitative performance criteria were met (Appendix I, Table 1). However, outside the framework of generally tight budgetary policies, **serious financial imbalances have built up in other sectors in 2001**:

- **The debt of the publicly owned groundnut company (SONACOS) has reached unsustainable levels.** The company was unable to reimburse CFAF 32.5 billion (5.2 percent of credit to the economy) of the 1999/2000 crop credit at end-2000.[3] In early 2001, SONACOS proceeded to borrow an additional CFAF 92 billion (about US$125 million) from foreign and domestic sources to finance the purchase of this year's crop.[4] At end-May 2001, total debts reached CFAF 118 billion (3.5 percent of GDP), of which CFAF 30 billion was guaranteed with government deposits in local banks. As a result of external market constraints, administered producer prices that exceeded market prices, weak management, and governance problems, SONACOS will probably not be able to reimburse CFAF 65 billion (1.9 percent of GDP) of these debts by end-2001 (MEFP, para. 10).

- **The public electricity company (SENELEC) could not finance its current operations despite subsidized fuel prices**. Electricity tariffs, which remained unchanged in 2000 and 2001, did not allow the company to recover the high costs resulting from outdated and poorly adapted power generation equipment (MEFP, para. 12). Following the decision of the government to repurchase the 34 percent of shares in the company it had sold in 1999, SENELEC's access to bank credit was curtailed, and by end-June 2001 the company had accumulated arrears of CFAF 40 billion (1.2 percent of GDP) vis-à-vis petroleum companies and other suppliers.[5]

7. As regards **structural reforms** (MEFP, para. 3) the single taxpayer identification number was introduced as planned in March 2001, and a study on tax exemptions, as well as a restructuring plan of the postal service, was submitted to Fund staff (Box 1).[6] However, the

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[3] The accompanying selected issues paper (SM/01/276, 8/30/01) provides some additional background information. See also Box 3 of the previous staff report (EBS/01/9, 1/31/01).

[4] SONACOS was not subject to external borrowing ceilings under the PRGF arrangement approved in February 2001. Its external loans are linked to export activity, guaranteed with export contracts, and have a maturity of less than one year.

[5] See Box 1 in the previous staff report (EBS/01/9, 1/31/01).

[6] The performance criterion on the single taxpayer identification number aimed at introducing the same identification number in all revenue collecting agencies because previously different

(continued...)

Box 1. Senegal: Implementation of Structural Performance Criteria (*) and Benchmarks

Measure	Original Timing	Status
Implementation of a single taxpayer identification number in all revenue-collecting agencies. (*)	March 31, 2001	Met. All other previously used identification numbers will be eliminated by December 31, 2001.
Submission of the audit of the postal service and a restructuring plan to Fund staff.	March 31, 2001	The restructuring plan was submitted in March 2001; the audit report was submitted on August 14, 2001.
Submission of a study detailing the revenue impact, beneficiaries, and legal basis of tax and customs exemptions to Fund staff.	March 31, 2001	Met.
Submission to the national assembly of a draft law setting up a VAT at a single rate of 18 percent, with limited exemptions and effective implementation of the new law. (*)	May 1, 2001	The VAT was approved by the national assembly and implemented in early September 2001.
Reintroduction of the pass-through mechanism for retail prices of petroleum products. (*)	May 1, 2001	The mechanism was reintroduced on June 29, 2001.
Adoption of a text with legal force providing for the application of the WAEMU budget classification from 2002 onward.	June 30, 2001	The texts are expected to be adopted in September 2001.

audit of the postal service was submitted with a delay in August 2001. The pass-through mechanism for petroleum products was reestablished, also with some delay, at end-June 2001. Because of the legislative elections, the unification of the two VAT rates could not be implemented until after it was approved in September 2001 by a special session of the national assembly.

B. Output and Inflation

8. **Growth and inflation in 2000 and the first half of 2001 were in line with the program** (Tables 1 and 2). Real GDP in 2000 is estimated to have grown at 5.6 percent and continued at this pace in the first quarter of 2001 (Figure 2). The main forces behind the projected GDP growth of 5.8 percent in 2001 are the large 2000/01 groundnut harvest,

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agencies had used different numbers. The temporary parallel use of the taxpayer account number (MEFP, para. 3) in the tax department is a welcome prudential measure.

sustained growth in industrial activity, and a buoyant telecommunications sector, driven by a rapid increase in the use of cellular phones and the Internet. Inflation, which remained low at 0.7 percent in 2000, picked up slightly in the first half of 2001.

C. Fiscal Issues

9. **Fiscal deficit and government credit targets through end-June 2001 were met.** At end-2000, the overall deficit (on a commitment basis and excluding grants) remained 0.9 percentage point of GDP below programmed levels, owing to slow implementation of foreign-financed capital spending (Table 3), while the basic fiscal balance was close to the program target.[7] The ceiling on credit to the government was met by a wide margin, aided by a substantial accumulation of deposits (0.5 percent of GDP) by the extrabudgetary pension and social security funds. Reflecting both strong revenue performance and low expenditures, the end-March 2001 quantitative performance criteria were met, and at end-June 2001 the basic fiscal balance displayed a fiscal stance that was about CFAF 30 billion (0.9 percent of GDP) tighter than programmed. As a result, net credit to the government remained more than CFAF 50 billion below program ceilings.[8]

10. **Fiscal revenues exceeded projections in 2000 and surpassed the target of 17 percent of GDP established by the convergence pact of the West African Economic and Monetary Union (WAEMU).** The favorable trend in revenue collection continued in the first half of 2001, with revenues exceeding targets by CFAF 8 billion (0.2 percent of GDP); this outcome is explained in part by a rebound in import volumes and a strong growth in personal income tax recoveries.

11. **Faced with a tight liquidity situation at the treasury, the government implemented a tight spending regime to avoid a substantial drawing on the statutory advances at the Central Bank of West African States (BCEAO).** Following the transfer of almost CFAF 28 billion of central bank deposits to local banks in the first half of 2001 to guarantee loans for SONACOS and SENELEC, the stock of guarantee deposits reached CFAF 43.5 billion at end-June 2001 (Box 2). The resulting liquidity shortage forced the government to keep overall expenditures thus far in 2001 well below program targets.

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[7] The basic fiscal balance is defined as revenue minus total expenditure (including net lending), excluding externally financed capital expenditure and on-lending.

[8] At end-March 2001, an amount of CFAF 6 billion was transferred from a SONACOS bank account to the treasury instead of being forwarded to a second bank, where it was meant to reduce outstanding SONACOS loans. This amount, which has thus far not been reimbursed by the treasury, improves the net credit position of the government, but its exclusion from government deposits would not lead to the nonobservance of the related performance criterion.

Box 2. Senegal: Stock of Government Guarantee Deposits Placed in Local Banks, 1999-2001
(In billions of CFA francs)

	Dec. 1999	Mar. 2000	Jun. 2000	Sep. 2000	Dec. 2000	Mar. 2001	Jun. 2001
Stock of guarantee deposits	8.7	28.8	27.7	18.7	15.7	33.0	43.5
SENELEC (electricity)	8.7	19.8	18.7	8.2	5.2	7.5	6.0
SONACOS (groundnuts)	0.0	7.0	7.0	7.0	7.0	22.0	30.0
SODEFITEX (cotton)	0.0	2.0	2.0	3.5	3.5	3.5	3.5
2001/02 groundnut seed loans	0.0	0.0	0.0	0.0	0.0	0.0	4.0

Source: BCEAO

12. **Weaknesses in accounting for public funds, as well as the delays in structural reforms, have had fiscal repercussions**. The programmed disbursements of **budgetary grants** by the European Union under the Program for Direct Budgetary Support of Structural Adjustment (PADBAS II) were held up, pending clarification by the government of the exact use of PADBAS I disbursements in 1999. The **postal service** accumulated a deficit of CFAF 13.1 billion (0.4 percent of GDP) in its correspondent accounts at the treasury during the first six months of 2001. As a result of complicated accounting procedures and conflicting accounting records at the postal service and the treasury, the factors behind the magnitude of the deficit could not be fully established.[9] To reimburse the treasury advances, the postal service contracted an external nonconcessional loan of CFAF 9.8 billion in June 2001 (MEFP, para. 16).[10] Meanwhile, the **retirement fund for civil servants** (FNR) continued to run large deficits in its special treasury account, exceeding program benchmarks by CFAF 1.4 billion (48 percent). The deficits reflect the structural problems that arose after the slowdown in hires in the early 1990s and the resulting increase in the ratio of retirees to active civil servants.[11] **Petroleum subsidies** caused by the price freeze in retail prices for

[9] The deposits in postal checking accounts are pooled in correspondent accounts at the Treasury. Drawings on postal checking accounts thus constitute in the first instance a drawing on the Treasury's account at the central bank. Every ten days, the Treasury establishes its net claim position and demands compensation by the postal service. For more information on correspondent accounts, see the accompanying selected issues paper (SM/01/276, 8/30/01).

[10] The postal service was not subject to the external borrowing ceiling and this transaction did not breach the corresponding performance criterion. In light of Senegal's status of a HIPC country, the revised program excludes any further nonconcessional borrowing of public enterprises (TMU, para. 26).

[11] See also the accompanying selected issues paper (SM/01/276, 8/30/01).

petroleum products exceeded program ceilings in December 2000; however, because of favorable international price and exchange rate developments in 2001 the subsidies have remained below targets, despite the delay in reinstating the pass-through mechanism.[12]

D. Monetary Issues

13. **Credit growth reflected the financing needs of the agricultural sector and the buildup of arrears in the energy sector.** Credit to the economy, which had expanded at a rate of 28.6 percent in 2000, partially because of SONACOS's inability to fully reimburse crop credits, continued to grow at a sharp pace over the first six months of 2001, following a drawing of new crop credits of more than CFAF 40 billion. Local banks participated only reluctantly in the financing of the 2000/01 groundnut campaign, after the government had guaranteed some of the new loans with deposits. Bank credit also rose because the accumulation of SENELEC's arrears vis-à-vis petroleum distributors led to a buildup of arrears of those companies with the local refinery (SAR). As a result, SAR was forced to increase its outstanding bank loans and external supplier credit. Through end-June 2001, broad money grew by more than 6 percent (Table 4).

14. **Recent developments have exacerbated the risk concentration problem in the loan portfolio of the local banking system.** As discussed in the accompanying Financial Sector Stability Assessment (FSSA), a firm plan for the repayment by SONACOS of domestic bank loans is essential. Otherwise, several banks, in particular those with significant exposure to nonguaranteed 1999/2000 crop credits, could lose a significant share of their capital. As regards the main prudential ratios, the overall situation of the banking system appears healthy, and 2000 was a very profitable year for all the major banks. Nonetheless, as a result of exposure to SONACOS, fewer banks respected the risk concentration ratio. Moreover, the ratio of nonperforming loans to total credit rose slightly as a result of loans to agricultural producers that were not reimbursed to one bank at end-2000.

E. External Sector

15. Senegal **maintained its external competitiveness** in 2000 and early 2001 (Figure 1). Owing to sustained low inflation rates, the real effective exchange rate depreciated slightly over the 12-month period ended May 2001. In the wake of deteriorating terms of trade, the external current account balance (excluding current official transfers) deteriorated slightly in 2000 (Table 5). However, despite the widening of the current account deficit and smaller-than-projected inflows of official loans and HIPC Initiative debt relief, the net foreign asset position of the central bank declined much less than originally projected. These developments

[12] In accordance with the definition of the TMU, for the purpose of the program benchmarks and criteria subsidies are measured on an accrual basis, while fiscal accounts reflect only those subsidies that have already been billed by the refinery.

are partly the result of the estimated increase of CFAF 40 billion (about US$53 million) in suppliers' credits to the SAR to finance crude oil imports. Total suppliers' credits of the SAR reached CFAF 80 billion at end-2000.

III. Policy Discussions

16. **The policy and program discussions centered on measures that could resolve the financial problems of SONACOS and SENELEC and preserve growth objectives and macroeconomic stability.** The key elements of economic and financial policies for the remainder of the year outlined in the MEFP are (i) structural measures to stop the accumulation of debt and arrears by public enterprises and avoid future imbalances; (ii) a payment plan of accumulated debt and arrears of SONACOS and SENELEC aimed at ensuring the proper functioning of the groundnut and electricity sectors, preparing the companies for sale to the private sector, and safeguarding the health of the banking system; (iii) prudent budgetary policies characterized by a sustained revenue effort and adherence to spending limits; and (iv) an allocation of additional resources, notably those received under the enhanced HIPC Initiative, to priority areas to reinforce the government's effort to reduce poverty. Structural conditionality issues and the division of labor with the World Bank are outlined in Box 3.

A. Restructuring the Groundnut Sector

17. **Government involvement in the groundnut sector has been one of the impediments to Senegal's development.** The distribution of seeds and fertilizers for credit and the collection of groundnuts have traditionally been handled by a publicly owned company.[13] The financial repercussions of government interference in the pricing and distribution of inputs, as well as in the producer prices of groundnuts, have created difficulties for the groundnut sector several times in the past, and the concomitant drain on government finances has diverted scarce resources from priority areas.[14] Attempts to privatize SONACOS that were backed by the World Bank and the PRGF-supported program failed in 1997 and 1999 because of investors' lack of interest in the company under the conditions specified by the government, in particular the requirement to continue providing seeds and fertilizers to producers on a credit basis and maintain the integrated *filière* structure.

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[13] Since 1985 this function has been assigned to SONAGRAINES, a 100 percent subsidiary of SONACOS.

[14] In 1980, the Office National de Coopération et d'Assistance au Développement (ONCAD) collapsed and left debts of CFAF 100 billion, 16 percent of GDP at the time. The government is still reimbursing the treasury bills it issued to assume responsibility for ONCAD debts. In the mid-1990s, the deficit of the sector was financed with Stabilization System for Export Earnings (STABEX) funds from the European Union.

Box 3. Senegal: Structural Conditionality

Coverage of structural conditionality

The prior actions, structural performance criteria and benchmarks for the program are summarized in Table 2 of the MEFP. One set of measures is expected to have a direct bearing on macroeconomic stability and public finances. These measures include the determination of prices for groundnut, electricity, and petroleum products and the reform of the civil service retirement fund. A second set of measures is expected to strengthen medium-term growth prospects, such as improvements in tax administration and efficiency, as well as measures aiming at restructuring the groundnut sector.

The **status of structural conditionality from earlier programs** is summarized in Box 1.

Structural areas covered by World Bank lending and conditionality

In February 2001, the World Bank extended an ongoing energy sector adjustment loan to accompany the resale of SENELEC to private investors. The remaining tranche of $45 million will be available after the privatization of SENELEC in accordance with World Bank criteria. A second tranche of the trade reform and competitiveness credit is conditional on improvements in tax administration and the regulatory environment. As regards the groundnut sector, the World Bank currently does not have any lending operation but is considering an operation to support implementation of the government's reform agenda as outlined in Table 3 of the MEFP. Overall progress in implementing structural reforms will also be taken into account when preparing a possible poverty reduction support credit (PRSC) in the second half of 2002.

Other relevant structural areas not included in current program

It would have been desirable to include conditionality in the areas of expenditure control and budget execution, particularly in the context of improving the tracking of expenditures in priority areas. Given the importance of addressing the structural problems in the groundnut and electricity sector, as well as the fiscal leakages at the postal service, these areas will have to be taken up at the next review or, at the latest, during discussions for a new three-year arrangement in 2002. The World Bank also intends to make these areas core conditionality under the planned PRSC.

18. **Bank and Fund staff stressed the need to take decisive steps in the near term to end government involvement in the groundnut sector.** These steps would need to be centered on a strategy that returns producer prices and quantities to levels that are consistent with world market conditions and the financial situation of SONACOS. Moreover, to remove an important obstacle to the privatization of SONACOS and reduce operating costs, its subsidiary, SONAGRAINES, should withdraw before the next groundnut campaign from the collection and transport of groundnuts and the distribution of seeds and fertilizers. **Broad understandings were reached with the authorities based on the staff's analysis.** The authorities developed a set of measures (MEFP, Table 3), in consultation with the World Bank, that aims at completing the privatization of SONACOS after the 2002/03 groundnut campaign, somewhat later than originally suggested by the staff.

19. **Based on the outlined structural measures, and given the fragile position of the banking system, as well as the importance of the groundnut sector for rural income, the program incorporates budgetary support for SONACOS to reimburse debts**

outstanding at end-2001. The exceptional payment of an estimated CFAF 65 billion (1.9 percent of GDP) will be financed with the guarantee deposits placed in local banks (CFAF 30 billion) and expected external concessional budgetary loans. The staff emphasized that a swift implementation of the identified reforms and a transfer of SONACOS's future profits to the budget should accompany this budgetary support. Profits in 2002 are projected at CFAF 20 billion on the basis of the announced 2001/02 producer price of CFAF 120 per kilogram.[15] The reimbursement of SONACOS's loans, the announced producer price, and the expected cost savings measures should also restore sufficiently the confidence of local banks to finance the 2001/02 campaign.

B. SENELEC

20. **The shortage of electricity supply has become a constraint on faster growth in Senegal.** Neglect to invest in additional power equipment over many years has resulted in power supply shortfalls and an inefficient allocation between base load and peak load plants. A first privatization attempt in 1999, in which a private consortium acquired 34 percent of the shares and took over the management of the company, did not result quickly in improvements of power supply, and the government decided in 2000 to end the contract and repurchase the shares. It launched a new call for expression of interest in early July 2001 and intends to finalize the sale of the majority of shares before the end of 2001.

21. **Bank and Fund staff emphasized that forceful measures had to be taken urgently to return the financial situation of the company to a long-run equilibrium.** SENELEC has been running large operating deficits for some time. These deficits will need to be addressed through both investments in more adequate equipment and electricity tariff adjustments. While major investment decisions should be best left to the expected private investors, application of the regulatory formula for electricity tariffs, which gives SENELEC the right to an immediate tariff increase, would not only improve the revenue of the company but also increase investor confidence.[16] **While the authorities generally shared the analysis, they were reluctant to implement electricity tariff increases immediately, ahead of the sale to a private investor. They preferred that the new investor apply for**

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[15] According to staff projections, at current prices in CFA francs per kilogram of groundnut oil and based on the announced producer price, SONACOS could break even on its operations in 2002 and generate a profit from end-2001 stocks if new purchases of groundnuts were limited to external demand.

[16] The regulatory formula for year t is based on consumer price changes and petroleum price changes in year t-1. The formula also includes penalties for shortfalls in power supply. Therefore, the formula did not permit a tariff increase in 2000.

an increase in tariffs in accordance with the regulatory formula.[17] Given other recent price increases and the potential impact of the unified VAT, they were also concerned about the impact of electricity tariff increases on the poor urban population. Moreover, they stressed the importance of increasing generating capacity before the arrival of a private investor.[18] The government will, nonetheless, adjust tariffs on November 15, 2001, if by that date the privatization has not been completed.

22. **Because of the importance of the electricity sector for growth, and the repercussions of SENELEC's arrears on other sectors, the program incorporates exceptional budgetary support to ensure the viability of the company until it has been privatized.** The government will issue treasury bills for CFAF 40 billion in the third quarter of 2001 to reimburse the creditors of SENELEC, most urgently petroleum suppliers. The authorities expect that the adopted measures will permit the company to finance its operations until it has been sold, and no further budgetary support will be granted after the privatization. Privatization receipts up to the amount issued in treasury bills will be used to reimburse domestic debt, with priority given to the statutory advances at the central bank.

C. Growth and Inflation

23. **The budgetary assistance to the groundnut and energy sectors and the structural reform program are expected to protect growth objectives in 2001 and beyond.** Agricultural output is projected to stabilize through 2003 at the high level attained in 2001 following the resolution of the debt problems of SONACOS and steps towards the liberalization of the sector.[19] However, in the future a smaller portion of the overall groundnut production will likely be purchased and transformed by SONACOS, and a larger portion will be traded on the local market. Based on the projects already under way and the expected further investments in the sector after the privatization of SENELEC, electricity generation will expand at a fast pace in 2002 and will enable a rapid growth in the industrial and construction sectors in 2002. Nonetheless, on average, the low growth in the agricultural sector is likely to reduce real GDP growth rates in 2002 and 2003 to about 5 percent

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[17] The increase in accordance with the regulatory formula would generate about CFAF 6.5 billion in additional revenue per year, implying additional revenue of CFAF 2-3 billion for 2001.

[18] A contract was recently signed with Morocco to install heavy-fuel turbines with a total generating capacity of 80 megawatts. Senegal is also expected to receive 60 megawatts from the Manantali project (a joint undertaking among Mali, Mauritania, and Senegal) starting in 2003.

[19] By contrast, in 1980/81 the unresolved debt problems followed by the collapse of ONCAD led to a sharp decline in the output of the groundnut sector.

(Figure 2). Inflation is expected to remain moderate in 2001. Based on end-June 2001 data, annual inflation will reach 3.2 percent for the year as whole taking into account seasonal factors and the impact of the VAT rate unification (estimated at 0.7 percentage point). Inflation is expected to remain at about 3 percent in 2002.

D. Fiscal Policy

24. **The financial repercussions of SONACOS's and SENELEC's difficulties will largely be absorbed by the budget.** Taken together, budgetary assistance to these two companies is projected to cost CFAF 105 billion (3.1 percent of GDP) in 2001, expanding the overall fiscal deficit to 5.8 percent of GDP, and the basic fiscal deficit to 1.9 percent of GDP. As regards the postal service, the authorities have indicated that they have already implemented a number of increases in fees and charges to strengthen its financial position. Further measures will need to be considered, based on the outcome of the audit and the conclusions of an ad hoc committee to verify and clarify the accounts by end-September 2001.

25. **The staff is encouraged by the government's internal adjustment efforts**. On the revenue side, the authorities have decided to strengthen revenue collection by CFAF 13 billion, of which CFAF 8 billion was already collected in the first half of 2001.[20] On the expenditure side, they have reduced the wage bill by CFAF 5 billion (2.7 percent). However, these gains will not improve the projected overall fiscal outcome because of delays in the disbursement of budgetary grants from the European Union. The deficit will be financed by a mix of additional domestic borrowing (CFAF 46.9 billion), additional expected external concessional support for the government's reform program (CFAF 35.7 billion), and higher-than-programmed privatization receipts (CFAF 20 billion).

26. **Despite the sharp widening of the overall deficit, the underlying fiscal position will improve in 2001**. Excluding the exceptional expenditure for public enterprises and the additional spending financed with HIPC Initiative debt relief, the government would post a basic fiscal surplus of 1.9 percent, an improvement of 0.4 percent over the underlying position in the original program (which excluded HIPC-related spending and planned exceptional expenditure related to social security reform).[21] The relatively strong underlying

[20] However, despite the sustained collection effort, the increase in revenue does not lead to an increase in the ratio of revenue to GDP given the upward revision of nominal GDP linked to higher-than-projected inflation in the second half of 2001. Nontax revenue was increased by the prorated fishing royalties, reflecting the ongoing negotiations with the European Union on this issue.

[21] The exceptional expenditures were related to a reimbursement of the arrears of defunct public enterprises to the private social security fund (IPRES), aided by external budgetary support. The government now intends to reform the civil service retirement system (FNR) in (continued...)

fiscal position and the continued improvement in government revenue (Table 6) bode well for Senegal's medium-term prospects. Indeed, if spending on subsidies were kept in check and the structural reform program in the groundnut and electricity sector were successfully implemented, the government's own revenues, together with resources freed up by HIPC debt relief, would provide substantial room to raise spending in priority areas, particularly capital outlays.

E. Monetary Issues

27. **The resolution of SONACOS's and SENELEC's financial situation is expected to reverse some of the very rapid expansion of credit to the economy.** The reimbursement of SONACOS's local bank loans by end-2001 will also reduce the risk concentration of banks' lending portfolios—a situation that has been emphasized as a factor of potential instability in Senegal's FSSA (Box 4). Some of the additional liquidity created by the reimbursement of these loans will be mopped up by increased government domestic borrowing, notably the CFAF 40 billion of treasury bills to be issued under the program. Although the growth of credit to the economy is projected at only 2.2 percent in 2001, the substantial decline in credit to SONACOS still allows credit growth of more than 7 percent to other sectors during the year.

28. **The staff stressed that the government's policy of placing guarantee deposits in local banks had undermined the effectiveness of the central bank in influencing bank liquidity and credit growth.** It also enabled public enterprises in financial difficulties to draw a substantial amount of new loans, thereby creating a moral hazard. The mission therefore welcomed the government's decision to strictly limit any use of guarantees to those inscribed in the budget law, as this would strengthen the central bank's capacity to keep the growth of monetary aggregates in line with the fixed exchange rate regime. The government is also already pursuing some of the recommendations of the FSSA. In particular, special training for magistrates in commercial matters has been instituted, and the BCEAO is implementing a modern payments system with World Bank assistance.

F. External Outlook for 2001 and the Medium Term, and Regional Convergence

29. **Senegal's current account deficit (excluding current official transfers) is expected to narrow by 0.6 percent of GDP in 2001 from the previous year.** However, this improvement is smaller than originally projected because of a downward revision in phosphate and fish exports and a smaller-than-expected improvement in the terms of trade. The lower exports reflect the latest information on the coming on stream of new phosphate mines and the difficulties of the fishing sector since 2000, which are related to less abundant

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2001 before addressing IPRES later on (MEFP, para. 19). The reform of the FNR is expected to have repercussions on the 2002 wage bill because of higher contribution rates.

Box 4. Senegal: Summary of the Financial Sector Stability Assessment (SM/01/272)

The banking system in Senegal has regained its health since the banking crisis in the late 1980s, many underlying weaknesses have been addressed, and, overall, the probability of a major systemic crisis is low. The government and the monetary authorities have successfully strengthened banking supervision through the creation of the regional Banking Commission. The government has also reduced its shares in banks to minority holdings and it refrains from direct interference in the banking sector.

Senegal's narrow export base and its policies to administratively set prices for groundnuts and energy expose banks to adverse shocks. In this respect, the banking system's exposure to SONACOS and SENELEC is of particular concern. As a result of loan concentration, seven local banks did not meet the risk concentration prudential criterion at end-April 2001. A default by SONACOS, forcing banks to declassify and fully provision for loans extended to the company, would necessitate the recapitalization of four of the nine locally incorporated banks in order to meet the capital adequacy guideline. If SENELEC were to fail, then six out of nine locally incorporated banks would need capital injections. These banks would be fully impaired if a default by SENELEC also led to a failure of local petroleum suppliers.

Outside the banking system, other sectors of the financial system are fairly small and little developed and, therefore, do not pose important systemic risks. The main findings are as follows:

- The **insurance sector** suffers from certain weaknesses, such as low capital requirements, weak licensing procedures, lack of internal control procedures, little use of reinsurance, and lack of on-site inspections.
- The **pension system** is unsustainable in the medium and long term, with implications for public finances.
- The **capital market** is young and has not yet reached the volume needed to significantly cover operating costs and reduce costs of intermediation.
- Deposit balances in **microfinance institutions** have grown quickly and serve a very large segment of the population, in particular low-income groups.

The **major recommendations** of the FSSA report are as follows:

- **Improve the efficiency of the judicial system** with human and technical resources, as well as training.
- Enforce risk concentration limits more rigorously to reduce the concentration of credit risks.
- **Implement fit and proper tests for the insurance sector**, increase minimum capital requirements, apply internal controls, encourage reinsurance, and allocate more resources to supervision.
- Closely monitor the licensing of new microcredit institutions and evaluate the creation of a special supervisory body.
- **Develop an efficient payments system** to improve liquidity management in the region.

fishing grounds and the application of more stringent regulations to exports to the European Union. As regards the terms of trade, the projected improvement of 0.7 percent in 2001 is smaller compared with the 2.9 percent under the original program largely due to an upward revision in WEO oil prices. The current account deficit would be fully financed by external aid disbursement, private capital flows, and HIPC Initiative interim relief and result in an increase of the net foreign assets at the central bank equivalent to 3.5 percent of beginning-of-period money stock.

30. **The staff projects Senegal's balance of payments to remain sustainable over the medium term.** These projections are based on further improvements in the terms of trade in 2002 and 2003 under WEO assumptions, and the expansion of phosphate product exports, for which investments are under way. The current level of project grants and loans, together with expected HIPC debt relief, would finance current account deficits through 2005, and the authorities should not have any difficulties in meeting their payment obligations to the Fund (Table 7).

31. **The overall medium-term developments would allow Senegal to meet almost all WAEMU convergence criteria from 2002 onward** (Table 8). A return to tighter fiscal policies in 2002, combined with a continuation of prudent monetary policies, would permit the government to meet the criteria on the basic fiscal balance and inflation. As regards the criterion on the debt ratio, the reduction in the debt stock after reaching the completion point under the enhanced HIPC Initiative in 2002 would put Senegal below the WAEMU's limit of 70 percent of GDP. Among the secondary criteria, only the external current account balance criterion would be missed in 2002 and 2003. As regards the common external tariff (TEC) of the WAEMU, Senegal is largely in conformity with its regulations. A number of surtaxes on food items (such as onions and potatoes) have been removed in 2001. Since the expiration of the respective exemption by the World Trade Organization on July 1, 2001, Senegal is also refraining from the use of administratively set customs values.

IV. Poverty Alleviation, PRSP, and HIPC Initiative

32. **The program incorporates accompanying measures to limit negative effects on the poor or focuses on policies that will reduce the exposure of the poor to adverse income shocks.** Overall, preliminary indications show that poverty in Senegal remains widespread and poverty indicators are close to the sub-Saharan average (Table 9). The reduction of the **producer price for groundnuts**, while likely reducing income in rural areas (where an estimated 70 percent of the poor are located) in the short run, will help ultimately return the groundnut sector to sustainable production levels and reduce future income fluctuations for farmers. Given world market conditions for groundnut oil, the doubling of production levels in 2000 and 2001 compared with 1998 was not a sustainable expansion of rural income, and thus any income reduction in 2002 is relative to exceptional years. In light of the weak financial management of SONACOS, it is also unclear to what extent the poor benefited from the recent groundnut boom in the first place.[22] Moreover, because of the low level of value that is currently added in rural areas, owing to the vertical integration of the groundnut sector's activities under SONACOS and SONAGRAINES, the planned liberalization of the sector could increase resources available to the poor despite lowering producer prices. The **unification of the two rates of the VAT** was accompanied by a list of exemptions of some important goods of primary necessity (such as fish and cereals) that play

[22] The household budget survey that is being conducted will assist in answering this question.

a large role in the consumption of the urban and rural poor. Electricity and water, which were previously taxed at the lower VAT rate, now have social tranches that are exempt from the new single-rate VAT. As regards the **adjustment of petroleum product prices**, prices for small bottles of butane gas, which are used for cooking by the poor and help prevent deforestation, continue to be frozen. Given the low level of rural electrification, an **electricity tariff increase** would mostly affect the urban population, where only an estimated 30 percent of the poor are located.[23]

33. **The national assembly approved a supplementary budget law to allocate the resources freed up by the interim relief under the HIPC Initiative amounting to CFAF 23.4 billion.**[24] These resources will be used for the health sector, the education sector, rural infrastructure, in support of price freeze for small butane bottles, and for a onetime transfer to IPRES, the pension fund for private sector employees, to lift certain pensioners above the poverty level. Overall, 70 percent of HIPC Initiative resources have been allocated to investment projects. In 2001, the HIPC-related resources would allow an increase of about 20 percent of the amounts currently spent in social sectors out of domestic resources (3.5 percent of GDP) or an 11 percent increase of total spending in social sectors (6.3 percent of GDP), including foreign-financed expenditure. As regards the capacity of the government to track priority expenditures, although the authorities are able to identify disbursements out of a HIPC account, they would need to strengthen public expenditure management systems. The authorities have requested that a mission from FAD to evaluate expenditure systems visit Senegal in September 2001 and a ROSC mission from FAD visit Senegal in early 2002, after the introduction of the harmonized WAEMU fiscal nomenclature and fiscal accounting standards.

34. **The government is maintaining its goal of preparing a full poverty reduction strategy paper (PRSP) by end-2001 to enable it to reach the completion point under the enhanced HIPC Initiative**. Because the start of the household surveys was delayed until June 2001, the government decided to base its initial poverty analysis on 1994 data in order launch the participatory process in June 2001. However, data from the first three months of the survey will become available in September 2001 and could be used to provide an update

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[23] The social impact of structural reforms is also discussed in the accompanying selected issues paper (SM/01/276, 8/30/01). A broader social impact analysis of these two sectors should be conducted in the future to accompany the reform process.

[24] Total expected relief in 2001 is now estimated at CFAF 27.2 billion. Unallocated debt relief will be held in the HIPC account at the treasury and spent in 2002. Senegal currently receives HIPC interim relief from the World Bank, the IMF, and the African Development Bank. As regards the Paris Club, which agreed to provide relief in October 2000, Senegal had signed agreements with Norway, Spain, and the United States by end-July 2001 and is continuing its discussions with the other creditors of the Paris Club.

Box 5. Senegal: Progress in Implementing Completion Point Conditions (EBS/00/97)

Maintain a stable macroeconomic environment. Senegal's PRGF-supported program has remained broadly on track since the decision point.

Public savings. The 2000 target for the basic fiscal surplus was exceeded by 0.2 percent of GDP. The 2001 target of 2.2 percent of GDP will not be attained because of higher expenditure related to interim relief under the HIPC Initiative and the need to assist failing public enterprises.

Bank credit. Senegal has observed the program ceilings on net bank credit to the government.

Private sector development. Two out of eleven public enterprises have thus far been privatized. The privatization program was halted for review by the new administration in early 2000. The authorities are maintaining their objective of putting up for sale the nine missing companies in 2001. A number of administrative hurdles were simplified or improved, i.e. through the acceleration of environmental impact certifications and the elimination of the trade permit card.

Energy. The surtax on imported petroleum products was eliminated in 2000. The pass-through mechanism for petroleum products was reinstated at end-June 2001 with the elimination of subsidies for SENELEC fuels, in accordance with the 1998 IDA credit. The subsidization of small bottles has been maintained above projected levels to assist the poor and prevent environmental degradation.

Taxation. A large-taxpayer unit was set up and staffed in 2000 and a single taxpayer identification number was instituted in 2001.

PRSP. The government expects to complete the full PRSP by end-December 2001.

Household budget survey. The household budget survey to assess poverty began with some delay in June 2001. Its complete results on the poverty lines and indicators will not be available before the expected completion of the full PRSP. However, new data from the first three months of the survey are becoming available by September 2001 and could be integrated into the initial poverty analysis. The full one-year survey will be analyzed and presented in the first annual update of the PRSP.

Education. More than 2,000 teachers have been recruited annually on a contractual basis. However, the share of primary education in the education budget has not yet reached 44 percent.

Health. Owing to a temporary disruption in the response to health surveys, the latest data on health indicators for 2001 are not yet available.

to the poverty analysis for the full PRSP. The complete one-year household survey with more reliable results would then be integrated into the first update of the PRSP in 2002. The PRSP is expected to be submitted to Bank and Fund staff by end-2001. It will benefit from the ongoing consultative process with civil society and donors, including thematic groups and regional consultations. Should the completion of the PRSP be delayed, the authorities will submit an interim PRSP progress report to the Executive Board at the time of the next review. The implementation of completion point triggers and the interim PRSP has thus far been mixed (Box 5). Most importantly, progress has been slow in privatizing a critical mass of public enterprises because the government decided to review its privatization program after the changeover in administration in April 2000.

V. Program Monitoring and Risks

35. Consistent with the need to closely monitor macroeconomic performance and the substantive structural reform program, the remaining two disbursements under the PRGF arrangement, equivalent to SDR 14.268 million each, would be split into three disbursements of SDR 9 million each available on or after July 31, 2001, SDR 9 million available on or after December 1, 2001, and SDR 10.536 million available on or after February 1, 2001. The rephasing is in accordance with the authorities' request. The program would be monitored on end-September 2001, November 15, 2001, and end-December 2001 performance criteria and benchmarks, which are described in detail in the TMU.

36. The program is subject to a number of risks:

- The financial program assumes a determined implementation of the reform package supported by the World Bank and other donors. Access to external concessional financing depends on a rigorous pursuit of the privatization of SENELEC, the quick implementation of reforms in the area of tax and customs administration, and a determined implementation of reforms in the groundnut sector. Should these reforms be delayed and lead to shortfalls in external financing, the authorities will need to adopt offsetting measures. These measures could include a postponement of budgetary expenditures in non-priority areas to 2002, and a phasing of the debt reimbursement for SONACOS and SENELEC until external financing becomes available.

- The government needs to keep budgetary spending in line with program ceilings. Most notably, the recent increase in the prices of rice and bread, combined with the effects of the VAT and electricity tariffs, will increase popular pressures to raise wages and reintroduce subsidies, especially ahead of local elections in April 2002.

- The resolve to implement structural reforms in the groundnut sector may weaken. As the immediate financial crisis subsides, vested interests could try to undermine the liberalization of the sector and the privatization of SONACOS.

VI. Staff Appraisal

37. **In 2000 and early 2001, Senegal's economy continued to grow at a solid pace with low inflation notwithstanding an adverse external environment and a political context characterized by presidential and legislative elections**. Senegal has posted real GDP growth rates averaging 5-6 percent since the 1994 devaluation; the fiscal stance has been appropriately prudent. However, the growth observed over the past years has not translated into significant reductions in poverty indicators, pointing to weaknesses in the way

resources are allocated and spending priorities established. The authorities should strive to address these weaknesses through the PRSP process. Owing to continued low inflation, Senegal has been able to maintain the external competitiveness gains derived from the 1994 devaluation.

38. **The government's overall budgetary policies have been appropriate thus far, but resolving the financial difficulties of key public enterprises will entail a significant loosening of the fiscal stance in 2001.** The authorities are to be particularly commended for the strong revenue effort they have made in 2000 and 2001. If this effort is sustained, it should allow the authorities to finance an increased share of projects in priority areas out of their own resources in the future. In this respect, the introduction of the single-rate VAT, the single taxpayer identification number, and the large-taxpayer unit have been important milestones. Budgetary spending has remained tight, in large part because of a lack of liquidity at the treasury, and the annual wage bill has been reduced below initial projections. The elimination at end-June 2001 of petroleum product subsidies, except for butane gas, also has been an important step in keeping spending focused on priority areas. However, the efforts made within the framework of the budget have been negated by the deficits of the groundnut and energy sector, leading to an overall increase of the budget deficit by 2 percentage points of GDP. As regards capital outlays, the government should make increased efforts to improve the implementation of domestically financed capital spending, especially in light of the additional resources made available under the HIPC Initiative.

39. **The new administration that took office in April 2000 inherited a legacy of weak implementation and ownership of the structural reform program, and particularly the long-standing structural problems in the groundnut and energy sector.** The pace of implementation of structural reforms had slowed considerably under the program supported by the PRGF arrangement approved in 1998. The execution of the privatization program was sluggish, and reforms in the groundnut sector stalled after two halfhearted attempts to privatize SONACOS. As regards SENELEC, the privatization of 1999 did not succeed because the private partners—who held only a minority share—were unable to undertake the investments necessary to quickly end power outages.

40. **In other areas, the new administration had difficulties in breaking with past policies during the run-up to legislative elections.** The introduction of the single-rate VAT, originally planned for January 2000, was delayed several times, and Senegal was the last country in the WAEMU to apply the respective directive. The authorities were also reluctant to remove the subsidies for petroleum products and reintroduce the pass-through system that had been discontinued before the presidential elections in February 2000.

41. **Faced with the structural problems in the groundnut and energy sectors, several recent decisions of the government have undermined macroeconomic stability.** In the energy sector, following the repurchase of SENELEC shares in early 2001, the financial position of the company deteriorated further. Nonetheless, the government decided not to apply the regulatory formula and kept electricity tariffs unchanged in 2001. **This policy**

increased the operating deficit of the company and undermined the government's credibility to create appropriate market conditions for privatization. In the future, the authorities should let the independent regulatory commission and the power company adjust tariff levels in a timely manner on the basis of the regulatory formula and without any political interference. In the groundnut sector, the government's policies of increasing the distribution of seeds and fertilizers at subsidized rates encouraged a further increase in the production of groundnuts, which exacerbated the difficult financial situation experienced by SONACOS at the end of 2000. To finance the purchase of groundnuts, the government then provided support to SONACOS by placing public funds as guarantee deposits in local banks. This policy weakened the liquidity position of the government and, in the end, will increase government domestic indebtedness when SONACOS proves unable to reimburse these loans. **The government's policy should allow local prices for inputs and groundnuts to vary with domestic and international market conditions, and the government should refrain from guaranteeing loans by banks.**

42. **As emphasized in the FSSA, the authorities need to address the problem of risk concentration in banking portfolios**. While the risk of systemic failure is low, a default of either SONACOS or SENELEC on bank loans would considerably weaken the local banking system. The financial situation of both enterprises therefore needs to be resolved at an early date, and appropriate measures should be taken to more closely monitor and limit risk concentration. The authorities should lay the groundwork for a broader diversification of bank portfolios away from a few large enterprises by strengthening the judicial framework, which will reduce the banks' risk in lending to small and medium-sized enterprises.

43. **The staff supports the authorities' financial strategy to resolve the difficulties of SONACOS and SENELEC**. Given the importance of the two enterprises for the Senegalese economy and their systemic impact, the accumulated debts need to be addressed urgently. In these circumstances, the government's strategy to temporarily increase domestic borrowing and accelerate reforms in order to obtain concessional external resources is appropriate. However, any additional resources from foreign donors or higher-than-programmed privatization receipts should be used on a priority basis to reduce the government's indebtedness.

44. **The main risks to Senegal's medium-term prospects for growth and stability arise from the possibility that the authorities abandon the reform agenda after a resolution of the immediate financial problems of SONACOS and SENELEC**. As has happened often in the past, pressures arising from vested interests, particularly in the run-up to the local elections, could lead to a delay or abandonment of the reform agenda for the groundnut and energy sectors. However, without these reforms, the cyclical return of imbalances will continue to destabilize the economy and absorb substantial financial resources without generating new economic activity or improving growth potential through spending in priority areas.

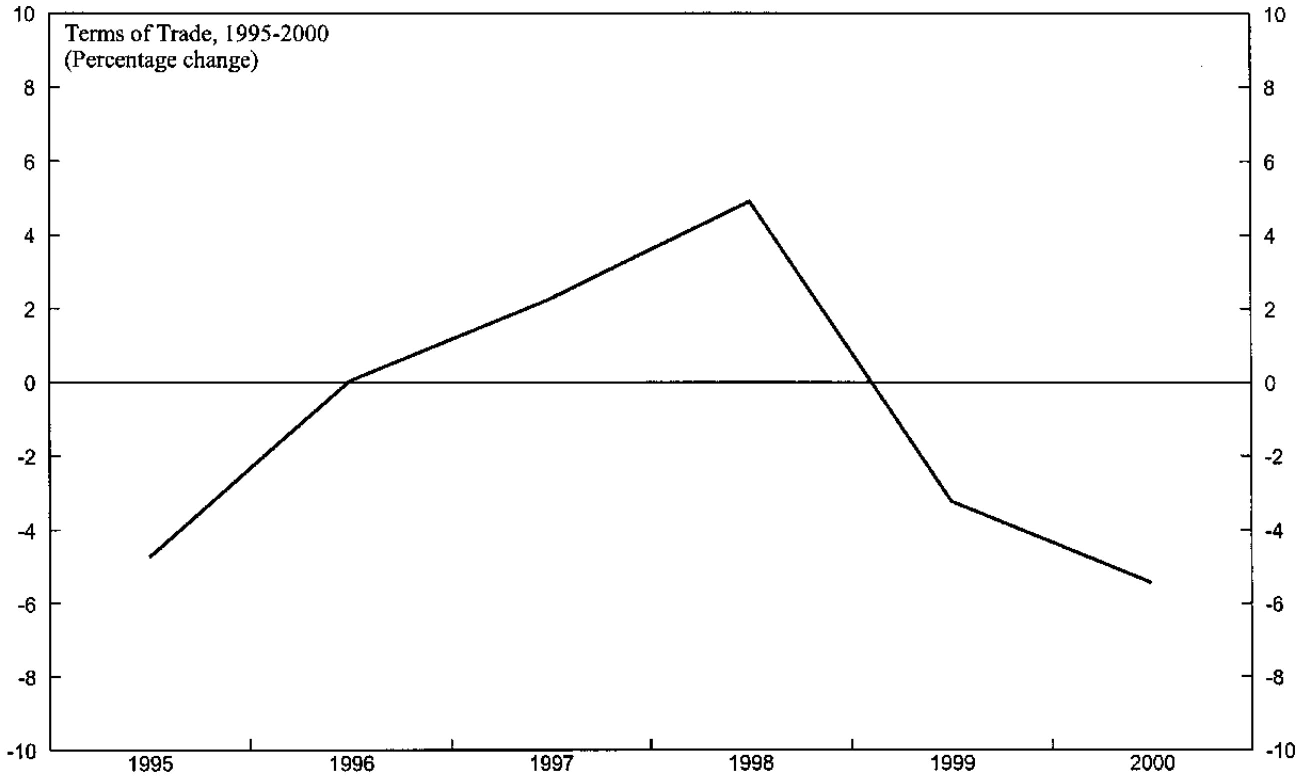
45. **The staff notes the authorities' intention to adhere to their end-2001 timetable for the finalization of the full PRSP**. The launching of the national consultations is encouraging and the staff welcomes the broad participatory process in which the authorities are engaged. It is disappointing that more recent household survey data has not been available at the beginning of the PRSP process. The staff encourages the authorities to ensure that early results of the new household survey are integrated into the analysis of the full PRSP. Should more time be required to produce and integrate early data of sufficient quality or to complete the consultative process, the authorities should consider delaying completion of the PRSP. In any case, a poverty analysis based on the complete survey should be provided in the first annual update of the PRSP. As regards the HIPC Initiative completion point, the authorities need to redouble their efforts in implementing completion point conditions; in particular the privatization program needs to be revived, and the 2002 budget should allocate sufficient resources for primary education.

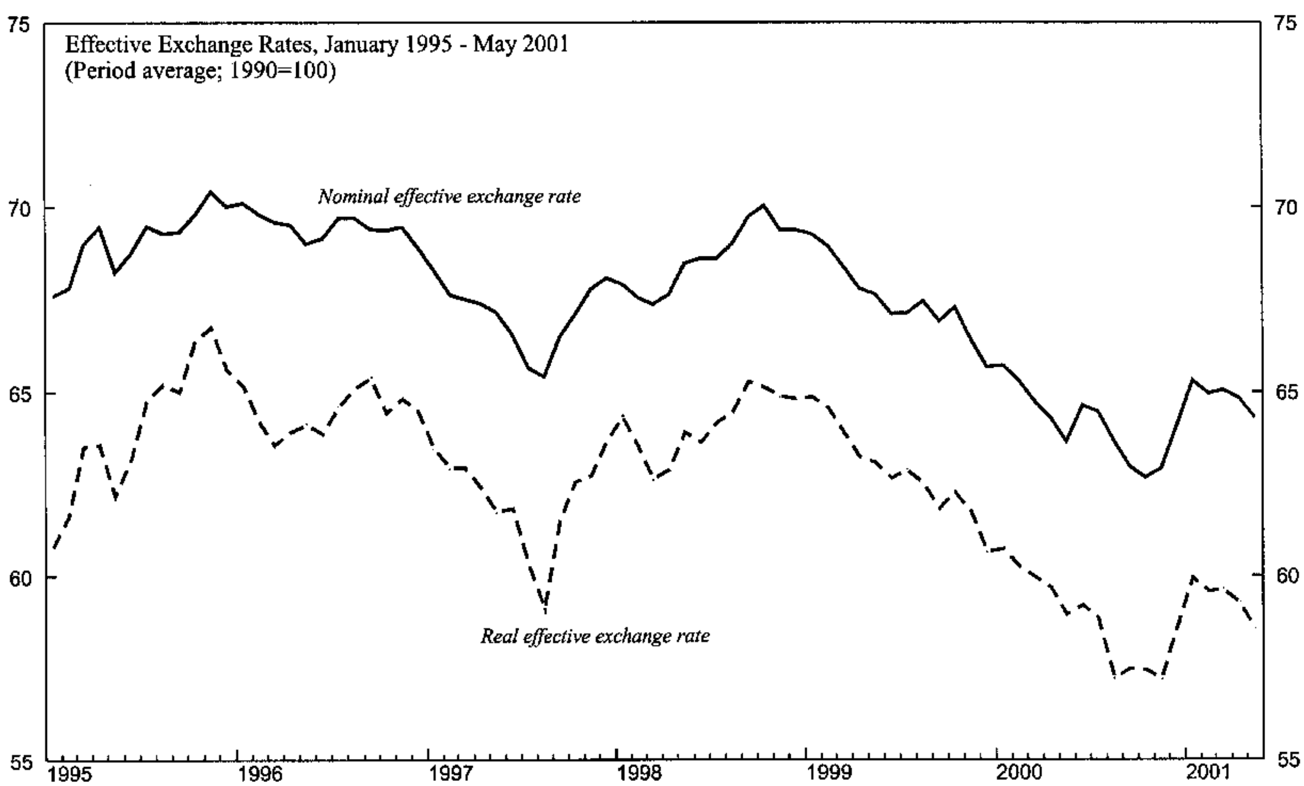
46. **Additional efforts should be made for improvements in the areas of statistics and public expenditure management**. The authorities need to strengthen fiscal transparency and public expenditure management systems to facilitate tracking of priority expenditures and should consider receiving the FAD ROSC mission at the earliest possible date. In the area of statistics, while data are generally adequate for surveillance and program monitoring purposes, the authorities should strive to improve the timeliness and reliability of national and fiscal accounts. The authorities' intentions to participate in the GDDS and to receive a ROSC data mission are commendable steps but they should also follow up on the implementation of the recommendations of previous STA technical assistance missions.

47. **Despite considerable risks, the staff considers that the financial and structural program outlined above, which will be subject to close monitoring, is sufficiently strong to deserve Fund support**. The performance of the government under the remainder of the PRGF arrangement will be an indicator of the government's willingness to continue the structural reform process and will be taken into account during possible discussions on a successor arrangement in 2002. The staff, therefore, recommends the completion of the first review of the third annual arrangement under the PRGF and, in view of the authorities' corrective actions, the granting of waivers for the nonobservance of the two May 1, 2001 structural performance criteria.

48. It is proposed that Senegal remain on the standard 12-month cycle for Article IV consultations.

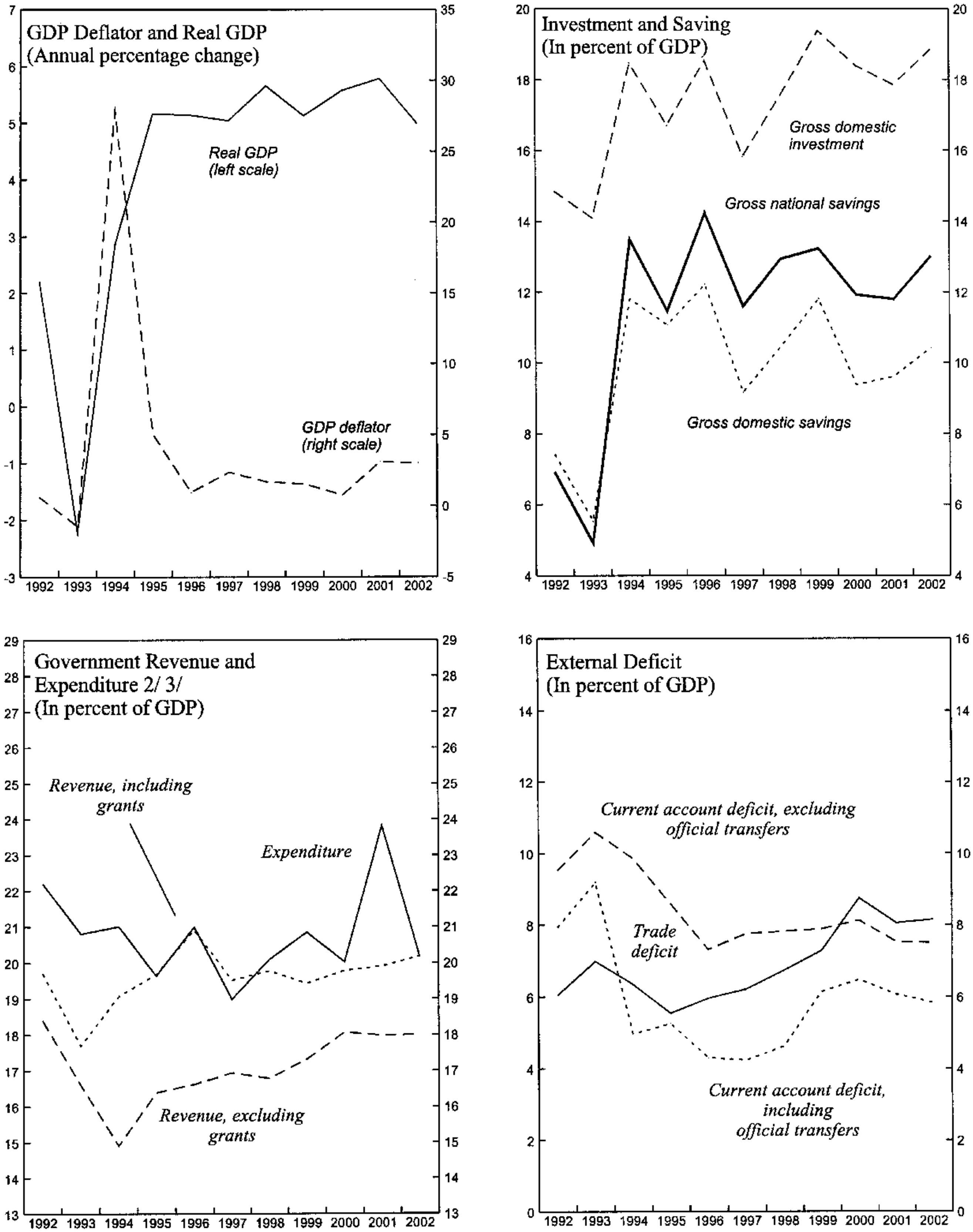
Figure 1. Senegal: Terms of Trade and Effective Exchange Rates





Sources: Senegalese authorities; IMF, Information Notice System; and staff estimates and projections.

Figure 2. Senegal: Main Economic Indicators, 1992-2002 1/



Sources: Senegalese authorities; and staff estimates and projections.

1/ Fiscal year ending June through 1991/92; on calendar-year-basis starting in 1993.

2/ Central government on a commitment basis.

3/ The series on grants and foreign-financed capital expenditure were revised from 1996 onward to take into account available foreign financing.

Table 1. Senegal: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000		2001		2002	2003
			Proj.	Est.	Proj.	Rev. Proj.	Projections	
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	5.7	5.1	5.5	5.6	5.7	5.8	5.0	5.0
Of which: nonagriculture GDP	7.0	4.8	4.1	4.1	5.2	5.0	5.5	5.2
Consumer prices								
Annual average	1.1	0.8	0.7	0.7	2.0	3.2	3.0	2.0
End of period	1.0	0.5	1.3	1.3	...	4.1	2.0	2.0
External sector								
Exports, f.o.b. (in CFA francs)	8.2	10.7	12.8	7.7	11.9	8.6	8.8	8.4
Imports, f.o.b. (in CFA francs)	10.1	11.9	14.5	12.8	3.6	6.1	8.0	5.0
Export volume	8.9	12.0	8.0	-2.1	10.0	6.7	6.1	6.4
Import volume	16.4	9.8	2.7	-2.1	4.8	5.0	6.7	4.9
Terms of trade (deterioration -)	5.0	-3.2	-6.3	-4.2	2.9	0.7	1.2	1.8
Nominal effective exchange rate	2.3	-1.7	...	-5.1	...	...	...	...
Real effective exchange rate	2.2	-2.4	...	-6.5	...	...	...	...
Government financial operations								
Revenue	6.5	10.2	10.4	10.9	5.7	8.6	8.2	8.3
Total expenditure and net lending	13.7	10.8	6.3	2.2	10.9	29.8	-8.4	6.8
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Money and credit								
Net domestic assets	2.4	5.0	16.4	12.8	0.1	5.6	0.8	4.2
Domestic credit	6.6	8.4	14.9	15.5	0.1	5.6	0.8	4.2
Credit to the government (net)	-1.1	1.2	-0.8	-4.0	-2.2	3.8	-10.6	-3.8
Credit to the economy (percentage growth)	11.2	10.4	23.1	28.6	2.9	2.2	15.4	9.7
Broad money (M2)	8.6	13.3	5.6	10.7	7.0	9.1	3.8	7.1
Velocity (M2/GDP; end of period)	4.3	4.1	4.1	3.9	4.1	3.9	4.1	4.1
Interest rates (end of period; in percent)								
Discount rate	6.25	5.75	6.50	6.50	...	6.50	6.50	6.50
Money market rate	4.95	4.95	4.95	4.95	...	4.95	4.95	4.95
	(In percent of GDP)							
Overall fiscal surplus or deficit (-) 1/								
Commitment basis, excluding grants	-3.3	-3.5	-2.9	-2.0	-3.8	-5.8	-2.2	-1.9
Commitment basis, including grants	-0.3	-1.4	-1.0	-0.2	-1.1	-3.9	0.0	0.0
Gross domestic investment 2/	17.6	19.4	18.4	19.1	18.3	17.4	18.2	19.3
Gross domestic savings	10.5	11.8	10.5	10.1	12.4	9.2	9.9	11.9
Gross national savings (including current official transfers)	12.9	13.2	11.4	12.6	14.0	11.4	12.5	14.2
External current account deficit (-)								
Excluding current official transfers	-7.8	-7.9	-8.6	-8.1	-6.6	-7.5	-7.4	-6.5
Including current official transfers	-4.6	-6.1	-7.0	-6.5	-4.3	-6.1	-5.7	-5.1
Domestic public debt	13.2	10.8	8.9	8.7	6.6	7.5	5.4	4.6
External public debt 3/	77.9	74.6	70.5	78.6	68.4	75.1	54.0	50.6
	(In percent of exports of goods and nonfactor services)							
External public debt service 4/	14.8	12.3	10.7	12.3	9.1	10.0	8.6	7.9
In percent of government revenue	26.4	21.6	...	20.7	...	16.6	14.3	12.9
GDP at current market prices (in billions of CFA francs)	2,740.7	2,925.9	3,113.1	3,112.3	3,330.2	3,394.3	3,670.3	3,929.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ For 2001-03, includes additional expenditures linked to the HIPC Initiative interim assistance debt relief.
2/ Assumes that 70 percent of undistributed HIPC spending in 2001-03 will be investment, and includes accumulation of stocks of 1.2 percent of GDP in 2000.
3/ Assumes a reduction in the stock of debt in 2002 after Senegal reaches the completion point under the HIPC Initiative.
4/ Figures for 2000-01 take into account HIPC Initiative interim assistance from the IMF, the World Bank, the African Development Bank and the Paris Club. Figures for 2002-03 take into account expected debt relief under HIPC Initiative from these four donors.

Table 2. Senegal: National Accounts, 1998-2003

	Composition of GDP in 1999 (In percent)	1998 Est.	1999 Est.	2000 Proj.	2000 Est.	2001 Proj.	2001 Rev. Proj.	2002 Projections	2003 Projections
		(Annual percentage change at constant prices, unless otherwise indicated)							
Primary sector	17.6	-3.2	6.3	11.5	10.8	6.9	6.9	2.0	2.8
Agriculture	8.3	-8.0	8.5	21.2	21.4	10.6	13.3	0.0	3.0
Livestock	6.7	3.3	4.8	3.1	3.1	4.1	3.1	4.1	3.0
Fishing	2.1	-3.4	4.1	2.5	-4.5	0.0	-10.6	6.9	2.0
Forestry	0.6	-3.8	1.4	1.4	1.4	1.5	1.5	1.6	0.2
Secondary sector	20.6	8.4	7.2	7.8	6.1	6.7	6.4	7.5	4.5
Mining	0.3	-2.8	38.9	-1.0	-0.6	4.3	11.5	10.7	3.0
Industry	13.1	7.2	4.8	4.8	5.2	5.4	5.4	6.8	4.0
Oil milling	0.5	28.4	7.4	24.9	49.5	20.1	20.8	-27.0	0.3
Energy	1.8	5.5	0.6	7.9	6.6	8.0	8.0	12.2	5.0
Construction and public works	4.7	12.7	15.7	15.0	4.5	8.0	6.3	12.9	6.0
Tertiary sector	61.8	7.5	4.1	3.1	3.9	5.0	5.2	5.0	5.8
Transportation and telecommunications	12.1	7.5	6.6	3.2	8.0	5.5	6.5	6.5	7.5
Commerce	21.9	7.8	4.1	2.1	2.1	5.6	5.6	5.0	6.5
Public administration	8.7	2.9	3.1	6.5	5.7	4.6	4.6	4.6	1.4
Other	19.2	9.5	3.1	2.7	2.6	4.2	4.2	4.3	5.9
GDP	100.0	5.7	5.1	5.5	5.6	5.7	5.8	5.0	5.0
Nonagriculture GDP	91.7	7.0	4.8	4.1	4.1	5.2	5.0	5.5	5.2
GDP deflator	...	1.7	1.5	0.8	0.8	1.2	3.1	3.0	2.0
Consumer price index (period average)		...	...	0.7	0.7	2.0	3.2	3.0	2.0
		(In percent of GDP)							
Gross domestic investment		17.6	19.4	18.4	19.1	18.3	17.4	18.2	19.3
Government 1/		7.2	8.3	6.9	6.2	7.8	7.4	7.7	7.8
Nongovernment 2/		10.4	11.1	11.5	12.9	10.5	10.0	10.5	11.5
Gross domestic savings		10.5	11.8	10.5	10.1	12.4	9.2	9.9	11.9
Government 1/		6.4	6.4	5.7	5.9	6.0	3.0	6.8	6.9
Nongovernment		4.0	5.4	4.9	4.2	6.3	6.1	3.1	5.0
Investment - savings balance		-7.1	-7.6	-7.9	-9.0	-5.9	-8.3	-8.3	-7.4
Government		-0.7	-1.9	-1.3	-0.3	-1.7	-4.4	-0.9	-1.0
Nongovernment		-6.4	-5.7	-6.6	-8.7	-4.2	-3.9	-7.4	-6.5
External current account balance 3/		-4.6	-6.1	-7.0	-6.5	-4.3	-6.1	-5.7	-5.1
Gross national savings 3/		12.9	13.2	11.4	12.6	14.0	11.4	12.5	14.2
Memorandum items:		(In billions of CFA francs)							
GDP at current prices		2,740.7	2,925.9	3,113.1	3,112.3	3,330.2	3,394.3	3,670.3	3,929.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ Central government; assumes that 70 percent of undistributed HIPC spending in 2001-2003 will be investment.

2/ Includes accumulation of stocks equivalent to 1.2 percent of GDP in 2000 and decumulation of stocks equivalent to 1 percent of GDP in 2002.

3/ Including current transfers.

Table 3. Senegal: Government Financial Operations, 1998-2003

	1998	1999	2000		June 2001		2001		2002	2003
			Prog.	Est.	Prog.	Prel.	Prog. 1/	Rev. Prog.	Proj.	
					(In billions of CFA francs)					
Total revenue and grants	541.9	568.4	615.8	615.6	333.9	327.5	681.2	675.4	740.5	790.1
Revenue	460.1	506.8	559.6	562.3	294.1	302.5	591.5	610.4	660.7	715.2
Tax revenue	438.9	491.2	533.4	537.3	291.1	300.3	579.1	592.1	646.0	699.5
Nontax revenue	21.2	15.6	26.2	25.0	3.0	2.2	12.4	18.3	14.7	15.7
Grants	81.8	61.6	56.2	53.3	39.8	25.0	89.7	65.0	79.8	74.9
Budgetary	18.7	4.1	0.0	3.4	14.8	0.0	24.7	0.0	14.8	9.9
Budgeted development projects	63.1	57.5	56.2	49.9	25.0	25.0	65.0	65.0	65.0	65.0
Total expenditure and net lending	550.6	609.9	648.4	623.1	326.7	303.4	718.8	808.6	740.4	790.8
Current expenditure	310.1	351.1	407.2	411.0	227.9	194.4	428.0	533.3	440.7	473.1
Wages and salaries 2/	162.6	166.6	177.4	175.8	93.1	88.3	186.0	181.0	194.4	202.2
Interest due	34.8	42.5	43.3	45.3	20.2	13.9	39.6	39.6	39.6	36.6
Of which : external 3/	27.8	32.3	37.7	39.6	17.7	11.0	34.6	34.6	33.1	31.6
Other current expenditure	112.7	142.0	186.5	189.9	114.6	92.2	202.4	312.7	206.7	234.3
Of which : petroleum product subsidies (excl. butane)	...	0.0	24.4	24.4	12.0	11.1	12.0	11.1	0.0	0.0
assistance to public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	105.0	0.0	0.0
Capital expenditure	196.9	242.3	215.2	193.2	90.6	84.9	235.6	235.6	263.2	284.9
Domestically financed	78.5	111.3	105.7	106.6	46.6	41.0	116.6	116.6	144.2	165.9
Externally financed 4/	118.4	131.0	109.5	86.6	43.9	43.9	119.0	119.0	119.0	119.0
Treasury special accounts and correspondents (net)	8.3	11.2	19.8	14.0	4.2	20.3	1.8	6.3	0.0	0.0
Net lending	35.3	5.3	6.2	4.9	4.1	3.8	10.0	10.0	8.0	0.5
Lending	44.0	22.4	13.4	11.4	8.0	8.0	16.0	16.0	16.0	16.0
Reimbursements	-8.7	-17.1	-7.2	-6.5	-3.9	-4.2	-6.0	-6.0	-8.0	-15.5
Restructuring of the social security system	...	...	...	...	...	...	20.0	...	...	...
Additional HIPC Initiative expenditures (to be identified)	...	...	...	...	...	...	23.4	23.4	28.4	32.3
Overall fiscal balance (commitment basis, including grants)	-8.7	-41.5	-32.6	-7.5	7.2	24.1	-37.6	-133.2	0.1	-0.6
Overall fiscal balance (commitment basis, excluding grants)	-90.5	-103.1	-88.8	-60.8	-32.6	-0.9	-127.3	-198.2	-79.7	-75.5
Excluding assistance to public enterprises and HIPC Initiative	...	...	...	...	...	...	...	-69.8	-51.3	-43.2
Adjustments to cash basis	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic fiscal balance 5/	71.9	50.3	34.1	37.2	19.4	51.0	7.7	-63.2	55.3	59.5
Excluding assistance to public enterprises and HIPC Initiative	...	...	...	...	...	...	...	65.2	83.7	91.8
Overall fiscal balance (cash basis, including grants)	-11.4	-41.5	-32.6	-7.5	7.2	24.1	-37.6	-133.2	0.1	-0.6
Financing	11.4	41.5	32.6	7.5	-7.2	-24.1	37.6	133.2	-0.1	0.6
External financing	50.3	22.9	37.5	17.1	36.8	27.3	106.2	125.7	73.1	36.1
Drawings	108.7	80.2	96.8	78.1	62.1	56.3	157.0	172.7	114.5	70.0
Treasury	19.1	0.0	37.5	37.1	35.2	29.4	67.0	102.7	44.5	0.0
Project loans	89.6	80.2	59.3	41.0	26.9	26.9	70.0	70.0	70.0	70.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	20.0	0.0	0.0	0.0
Amortization due	-58.4	-57.3	-67.8	-65.2	-35.5	-38.7	-74.2	-74.2	-66.0	-66.2
Debt relief and HIPC Initiative interim assistance 6/	0.0	0.0	8.5	4.2	0.0	0.0	23.4	27.2	24.6	32.3
Domestic financing	-28.6	18.6	-4.9	-10.5	-44.1	-55.4	-68.6	7.4	-73.2	-35.4
Banking system	-6.2	7.4	-5.9	-28.3	3.4	-25.2	-20.0	30.0	-91.5	-33.7
Nonbank financing	-22.4	11.2	1.0	17.8	-47.5	-30.2	-48.6	-22.6	18.3	-1.7
Of which : privatization	30.9	40.7	2.9	2.9	-45.2	-45.2	-44.1	-24.1	1.1	1.1
Errors and omissions	-10.3	0.0	0.0	0.9	0.0	4.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	-3.1	0.0	0.0	0.0
					(In percent of GDP)					
Total revenue and grants	19.8	19.4	19.8	19.8	20.1	19.3	20.5	19.9	20.2	20.1
Of which : revenue	16.8	17.3	18.0	18.1	17.7	17.8	17.8	18.0	18.0	18.2
Of which : tax revenue	16.0	16.8	17.1	17.3	17.5	17.7	17.4	17.4	17.6	17.8
Total expenditure and net lending	20.1	20.8	20.8	20.0	19.6	17.9	21.6	23.8	20.2	20.1
Of which : current expenditure 7/	11.3	12.0	13.1	13.2	13.7	11.5	12.9	15.7	12.0	12.0
capital expenditure 7/	7.2	8.3	6.9	6.2	5.4	5.0	7.1	6.9	7.2	7.2
Overall fiscal balance										
Commitment basis, excluding grants	-3.3	-3.5	-2.9	-2.0	-2.0	-0.1	-3.8	-5.8	-2.2	-1.9
Commitment basis, including grants	-0.3	-1.4	-1.0	-0.2	0.4	1.4	-1.1	-3.9	0.0	0.0
Commitment basis, excl. grants, excl. assistance to public enterprises and HIPC Initiative	-3.3	-3.5	-2.9	-2.0	-2.0	-0.1	-2.5	-2.1	-1.4	-1.1
Basic fiscal balance 5/	2.6	1.7	1.1	1.2	1.2	3.0	0.2	-1.9	1.5	1.5
Basic fiscal balance (excl. assistance to public enterprises, HIPC Initiative 8/	2.6	1.7	1.1	1.2	1.2	3.0	1.5	1.9	2.3	2.3
Memorandum items:					(In billions of CFA francs)					
IMF HIPC Initiative assistance	...	...	1.1	1.1	...	...	3.1	3.1	4.2	6.3
Current and capital social expenditure 7/ 9/										
Education	95.2	103.7	112.6	112.6	...	...	117.9	117.9	...	...
Health	21.9	27.6	33.5	33.5	...	...	38.0	38.0	...	...
Military spending 10/	44.3	48.2	44.4	44.4	...	...	51.5	51.5	...	...
Stock of domestic payments arrears (end of period)	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Internal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Extrabudgetary	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Gross domestic product	2,740.7	2,925.9	3,113.1	3,112.3	1,665.1	1,697.1	3,330.2	3,394.3	3,670.3	3,929.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ EBS/01/9 (1/31/01), adjusted for the IMF HIPC Initiative relief previously included as a domestic financing item.
2/ The wage bill in 2002 reflects the expected reform of the National Retirement Fund with an additional cost of CFAF 8 billion.
3/ The external debt-service figures include all debt directly contracted by the government and part of the government-guaranteed debt serviced by the budget.
4/ Sources of foreign financing are grants, loans, and uses of the proceeds received from Taiwan Province of China
(CFAF 9.6 billion in 1999, and CFAF 9.1 billion in 2000); uses are investment outlays and gross lending.
5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and lending.
6/ Represents from 2000 onward interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank and the Paris Club.
7/ Excludes undistributed expenditures on account of HIPC Initiative debt relief.
8/ 2001 figures for the original program exclude exceptional expenditure related to social security reform.
9/ Excludes externally financed capital expenditure.
10/ Defense budget figures.

Table 4. Senegal: Monetary Survey, 1998-2001

	1998	1999	2000		June 2001		2001	
			Proj.	Est.	Proj.	Est.	Proj. 1/	Rev. Proj.
	(In billions of CFA francs)							
Net foreign assets	51.4	104.0	27.4	88.7	27.4	85.2	79.5	116.3
Central Bank of West African States (BCEAO)	-6.5	13.6	-40.0	-5.6	-40.0	14.6	12.1	22.0
Commercial banks	57.9	90.4	67.4	94.3	67.4	70.6	67.4	94.3
Net domestic assets	578.9	610.1	726.9	701.7	768.1	753.5	727.4	745.7
Net domestic credit	621.5	674.6	780.8	785.3	822.0	837.4	781.3	829.3
Net credit to the government	181.1	188.5	182.6	160.2	186.0	135.0	162.6	190.2
Central bank	158.9	174.4	178.1	201.2	175.0	212.7	159.3	196.2
Statutory advance	70.4	60.7	40.7	38.9	20.7	39.4	0.0	0.0
Use of IMF credit	160.8	154.0	152.9	154.1	155.6	158.5	159.9	168.2
Consolidated loans	6.0	5.2	4.6	4.5	4.0	8.0	4.0	7.7
Other loans 2/	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1
Deposits	-137.4	-104.6	-79.2	-55.4	-64.4	-52.3	-63.7	-38.8
Commercial banks	20.9	13.0	1.9	-42.5	8.4	-79.2	0.7	-7.5
Of which: deposits	-101.5	-97.6	-94.8	-136.5	-81.5	-163.3	-81.5	-123.8
Of which: guarantee deposits	0.0	-8.7	...	-15.7	0.0	-43.5	0.0	-4.0
treasury bills 2001	0.0	0.0	0.0	0.0	0.0	0.0	0.0	40.0
Other institutions	1.3	1.1	2.6	1.5	2.6	1.5	2.6	1.5
Credit to the economy 3/	440.4	486.1	598.2	625.1	636.0	702.4	618.7	639.1
Of which: crop credits	12.7	1.7	32.5	0.0	38.6	47.6	1.9	0.0
Other items (net)	-42.6	-64.5	-53.9	-83.6	-53.9	-83.9	-53.9	-83.6
Broad money (M2)	630.3	714.1	754.3	790.4	795.5	838.7	806.9	862.0
Currency outside banks	158.5	179.7	143.7	172.0	175.0	183.8	200.0	187.6
Demand deposits	238.6	261.2	290.6	292.9	305.0	309.7	288.8	316.3
Time deposits	233.2	273.2	320.0	325.5	315.5	345.2	318.1	358.1
	(In percentage of beginning-of-period money stock, unless otherwise indicated)							
Net foreign assets	6.2	8.3	-10.7	-2.1	0.0	-0.4	6.9	3.5
BCEAO	2.5	3.2	-7.5	-2.7	0.0	2.6	6.9	3.5
Commercial banks	3.7	5.2	-3.2	0.5	0.0	-3.0	0.0	0.0
Net domestic assets	2.4	5.0	16.4	12.8	5.5	6.6	0.1	5.6
Net credit to the government	-1.1	1.2	-0.8	-4.0	0.5	-3.2	-2.7	3.8
Credit to the economy (percentage growth)	11.2	10.4	23.1	28.6	6.3	12.4	3.4	2.2
Other items (net)	-4.2	-3.5	1.5	-2.7	0.0	0.0	0.0	0.0
Broad money (M2)	8.6	13.3	5.6	10.7	5.5	6.1	7.0	9.1
Memorandum items:								
Velocity (GDP/M2; end of period)	4.3	4.1	4.1	3.9	...	...	4.1	3.9
Nominal GDP growth (percentage growth)	7.5	6.8	6.4	6.4	...	...	7.0	9.1
Credit to the economy/GDP (in percent)	16.1	16.6	19.2	20.1	19.7	22.2	18.5	18.8
Variation of net credit to the government (since the beginning of the year; in billions of CFA francs)	-6.2	7.4	-5.9	-28.3	3.4	-25.2	-20.0	30.0

Sources: Senegalese authorities; and staff estimates and projections.

1/ EBS/01/9 (1/31/01), adjusted for the IMF HIPC Initiative relief previously included as a domestic financing item.
2/ Kuwaiti deposit at the central bank.
3/ In December 2000 and June 2001, includes CFAF 32.5 billion in declassified crop credits granted for the 1999/2000 campaign.

Table 5. Senegal: Balance of Payments, 1998-2005 1/

(In billions of CFA francs, unless otherwise indicated)

	1998	1999	2000		2001		2002	2003	2004	2005
			Proj.	Est.	Proj.	Rev. Proj.		Projections		
Current account	-126.8	-179.7	-216.8	-201.5	-143.9	-205.8	-211.0	-202.1	-242.7	-276.3
Balance on goods	-184.5	-212.9	-227.9	-272.1	-179.4	-271.7	-287.6	-274.3	-304.5	-337.1
Exports, f.o.b	571.1	632.4	686.4	681.1	767.9	739.7	804.9	872.3	927.2	973.8
Groundnuts products	31.0	38.7	61.6	59.6	86.2	75.1	83.0	88.5	89.7	91.2
Fish products	169.0	179.6	188.8	158.0	194.8	161.5	165.7	171.7	178.6	189.8
Phosphate products	84.6	80.7	86.2	71.7	111.7	99.5	123.3	158.9	182.9	193.9
Other exports	286.5	333.3	349.8	391.8	375.2	403.6	432.9	453.2	476.0	499.0
Imports, f.o.b	-755.5	-845.3	-914.3	-953.1	-947.3	-1,011.4	-1,092.5	-1,146.6	-1,231.8	-1,310.9
Petroleum products	-80.8	-112.7	-206.3	-213.7	-178.4	-219.8	-219.2	-212.9	-214.3	-220.2
Rice	-73.1	-89.0	-76.2	-83.7	-84.0	-88.0	-105.5	-115.5	-125.9	-139.4
Other consumer goods	-255.1	-255.8	-238.8	-255.9	-250.9	-268.4	-283.4	-300.1	-317.8	-336.8
Capital goods	-111.3	-131.4	-130.9	-135.3	-140.9	-144.8	-173.9	-189.4	-224.9	-244.5
Intermediate goods	-235.1	-256.3	-262.2	-264.5	-292.9	-290.3	-310.5	-328.8	-348.9	-369.9
Services (net)	-43.4	-64.8	-50.5	-69.7	-49.2	-65.9	-68.9	-68.6	-72.1	-75.5
Credits	296.0	307.6	323.9	323.7	336.1	335.7	350.0	365.1	380.4	397.6
Of which: tourism	101.3	106.9	106.2	112.3	110.4	116.0	121.5	127.5	134.0	140.9
Debits	-339.4	-372.4	-374.4	-393.4	-385.3	-401.6	-419.0	-433.7	-452.5	-473.1
Of which : interest on public debt 2/	-36.7	-36.1	-40.8	-42.7	-37.2	-37.2	-35.1	-33.2	-31.1	-30.3
Unrequited current transfers (net)	101.0	97.9	61.6	140.3	84.6	131.8	145.5	140.9	134.0	136.3
Private (net) 3/	21.4	50.7	19.8	92.7	19.7	85.9	88.0	90.8	93.9	96.2
Public (net)	79.6	47.2	41.8	47.6	64.9	45.9	57.5	50.0	40.1	40.1
Of which: budgetary grants	18.7	4.1	0.0	3.4	24.7	0.0	14.8	9.9	0.0	0.0
IMF HIPC Initiative interim assistance 4/	0.0	0.0	1.1	1.1	3.1	3.1	0.0	0.0	0.0	0.0
Capital and financial account	153.9	220.1	131.6	178.7	175.7	209.3	212.5	195.5	212.7	235.1
Capital account	65.2	60.0	59.2	52.9	68.0	68.0	68.0	68.0	68.0	68.1
Private capital transfers	2.1	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.1
Project grants	63.1	57.5	56.2	49.9	65.0	65.0	65.0	65.0	65.0	65.0
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	88.7	160.1	72.5	125.8	107.7	141.3	144.5	127.5	144.7	167.0
Direct investment	44.5	87.6	57.4	34.9	16.4	10.5	60.1	64.3	68.8	74.8
Portfolio investment	-13.7	-10.2	-4.3	-9.3	-4.4	-9.8	-10.2	-10.5	-10.8	-10.7
Other investment	57.9	82.7	19.4	100.3	95.7	140.7	94.6	73.7	86.7	103.0
Public sector (net)	40.0	28.5	17.5	-0.1	93.7	107.2	56.8	11.8	20.4	32.0
Of which : disbursements	110.9	82.1	108.8	84.9	169.2	176.2	118.1	73.7	83.8	93.8
program loans	19.1	0.0	37.5	37.1	87.0	102.7	44.5	0.0	0.0	0.0
project loans	89.6	80.2	59.3	41.0	70.0	70.0	70.0	70.0	80.0	90.0
other	2.2	1.9	12.0	6.8	12.1	3.5	3.6	3.7	3.8	3.8
amortization 2/	-59.1	-53.5	-64.7	-62.1	-71.6	-71.6	-64.0	-64.6	-66.2	-64.7
Private sector (net) 3/ 5/	17.9	54.2	1.9	100.4	2.0	33.5	37.8	61.9	66.3	71.0
Errors and omissions	11.4	12.2	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	38.5	52.6	-85.1	-18.4	31.8	3.5	1.5	-6.6	-30.0	-41.1
Financing	-38.5	-52.6	85.1	18.4	-31.8	-3.5	-1.5	6.6	30.0	41.1
Net foreign assets (BCEAO)	-14.6	-20.1	53.6	19.2	-52.1	-27.6	-26.1	-25.7	-6.2	8.6
Operations account and other	-7.7	-12.0	56.2	21.8	-59.1	-38.2	-16.2	1.2	25.7	38.4
Net use of Fund resources	-6.9	-8.1	-2.6	-2.6	7.0	10.6	-9.9	-26.9	-31.9	-29.8
Purchases	28.4	12.0	13.2	13.4	26.7	30.6	10.2	0.0	0.0	0.0
Repurchases	-35.3	-20.1	-15.8	-16.0	-19.7	-20.0	-20.1	-26.9	-31.9	-29.8
Deposit money bank	-21.2	-32.5	23.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
Payments arrears (reduction -)	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/ 6/	0.0	0.0	8.5	3.1	20.3	24.1	24.6	32.3	36.3	32.6
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account balance										
As percentage of GDP (incl. current official transfers)	-4.6	-6.1	-7.0	-6.5	-4.3	-6.1	-5.7	-5.1	-5.8	-6.1
As percentage of GDP (excl. current official transfers)	-7.8	-7.9	-8.6	-8.1	-6.6	-7.5	-7.4	-6.5	-6.8	-7.1
Exchange rate (CFA francs per U.S. dollar)	586.7	614.9	699.2	710.0	...	...	...	...	...	...

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ Based on June 2001 World Economic Outlook (WEO) assumptions.

2/ Interests and amortization of public debt are slightly different from those presented in the fiscal table, owing to a different treatment of the operation account debt at the Central Bank of West African States (BCEAO).

3/ For 2000, the significant revisions for unrequited private transfers and other private investments are partially explained by better recording of balance of payments statistics.

4/ For 2000 and 2001, interim HIPC Initiative debt relief is including as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank, and for the Paris Club.

5/ For 2000, includes increase in refinery credits from suppliers. These credits are projected to decrease by CFAF 20 billion in 2001 and CFAF 20 billion in 2002.

6/ For 2002 onward, estimates of HIPC Initiative debt relief from the IMF, World Bank, African Development Bank, and Paris Club that will become available when Senegal reaches the completion point.

Table 6. Senegal: Detailed Government Revenue, 1998-2003

	1998	1999	2000		2001	2002	2003
			Prog.	Prel.	Prog.	Proj.	Proj.
			(In billions of CFA francs)				
Tax revenue	438.9	491.2	533.4	537.3	592.1	646.0	699.5
Taxes on income and property	107.2	107.5	130.5	128.7	144.1	152.8	167.6
Individual	56.6	54.2	65.0	61.9	69.9	73.4	78.6
Corporate	37.1	38.7	49.0	49.1	55.1	58.7	66.8
Other income taxes	12.8	13.7	16.2	17.0	18.4	19.9	21.4
Property taxes	0.7	0.8	0.3	0.7	0.7	0.7	0.8
Taxes on goods and services (excluding petroleum)	170.6	193.2	236.8	241.4	281.1	319.7	349.9
Value-added tax on domestic products	77.4	91.7	111.9	112.4	132.1	155.0	170.0
Value-added tax on imports	65.0	67.3	87.0	91.0	107.1	119.4	131.4
Presumptive taxes on the informal sector	3.7	5.2	5.2	5.8	6.4	7.0	7.5
Excises	4.6	6.0	9.3	8.0	8.5	9.2	9.8
Registration duties	7.9	10.7	9.8	10.5	11.9	12.8	13.8
Others	12.0	12.3	13.6	13.5	15.1	16.3	17.5
Taxes on petroleum products	50.4	83.9	86.1	94.4	86.9	89.1	93.2
Customs duties	11.4	11.2	8.8	11.3	4.3	4.1	3.9
Value-added tax	21.6	23.2	27.4	28.3	32.9	32.3	33.4
Excise tax	17.4	49.5	49.9	54.8	49.7	52.7	55.8
Taxes on imports (excluding petroleum)	110.7	106.6	80.0	72.8	80.0	84.3	88.9
Nontax revenue	21.2	15.6	26.2	25.0	18.3	14.7	15.7
Fishing rights	7.9	7.9	7.9	7.9	5.9	0.0	0.0
Stabilization	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Others	11.4	7.7	18.3	17.1	12.4	14.7	15.7
Total revenue	460.1	506.8	559.6	562.3	610.4	660.6	715.3
				(In percent of GDP)			
Tax revenue	16.0	16.8	17.1	17.3	17.4	17.6	17.8
Taxes on income and property	3.9	3.7	4.2	4.1	4.2	4.2	4.3
Taxes on goods and services (excluding petroleum)	6.2	6.6	7.6	7.8	8.3	8.7	8.9
Taxes on petroleum products	1.8	2.9	2.8	3.0	2.6	2.4	2.4
Taxes on imports (excluding petroleum)	4.0	3.6	2.6	2.3	2.4	2.3	2.3
Nontax revenue	0.8	0.5	0.8	0.8	0.5	0.4	0.4
Total revenue	16.8	17.3	18.0	18.1	18.0	18.0	18.2
Memorandum item:				(In billions of CFA francs)			
GDP	2,740.7	2,925.9	3,113.1	3,112.3	3,394.3	3,670.3	3,929.9

Sources: Senegalese authorities; and staff estimates and projections.

Table 7. Senegal: Indicators of Fund Credit, 2000-12

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Projections											
Outstanding use of Fund credit													
In millions of SDRs	195.4	206.6	196.3	168.4	135.1	103.9	77.8	52.4	32.8	18.5	8.6	1.4	0.0
In billions of CFA francs	183.0	196.1	189.6	162.0	129.6	99.5	74.3	50.1	31.4	17.7	8.2	1.4	0.0
In percent of government revenue	32.5	32.1	28.7	22.7	16.7	12.0	8.4	5.3	3.1	1.7	0.7	0.1	0.0
In percent of exports, f.o.b.	19.2	19.2	17.3	13.8	10.4	7.6	5.5	3.5	2.1	1.2	0.5	0.1	0.0
In percent of GDP	5.9	5.8	5.2	4.1	3.1	2.2	1.5	1.0	0.6	0.3	0.1	0.0	0.0
In percent of quota	120.8	127.7	121.3	104.1	83.5	64.2	48.1	32.4	20.3	11.5	5.3	0.9	0.0
Repurchases and charges due before HIPC Initiative assistance													
In millions of SDRs	19.0	23.2	22.9	29.9	35.1	32.8	27.7	26.7	20.9	15.5	11.1	7.1	1.4
In billions of CFA francs	17.8	22.0	22.1	28.8	33.7	31.4	26.4	25.5	20.0	14.8	10.6	6.8	1.4
In percent of government revenue	3.2	3.6	3.3	4.0	4.4	3.8	3.0	2.7	2.0	1.4	0.9	0.6	0.1
In percent of exports, f.o.b.	1.9	2.2	2.0	2.4	2.7	2.4	1.9	1.8	1.4	1.0	0.7	0.4	0.1
In percent of GDP	0.6	0.6	0.6	0.7	0.8	0.7	0.5	0.5	0.4	0.3	0.2	0.1	0.0
In percent of quota	11.8	14.3	14.2	18.5	21.7	20.3	17.1	16.5	12.9	9.5	6.9	4.4	0.9
Repurchases and charges due after HIPC Initiative assistance 1/													
In millions of SDRs	17.6	19.8	19.0	23.1	25.9	23.5	23.2	26.7	20.9	15.5	11.1	7.1	1.4
In billions of CFA francs	16.5	18.8	18.4	22.2	24.8	22.5	22.2	25.5	20.0	14.8	10.6	6.8	1.4
In percent of government revenue	2.9	3.1	2.8	3.1	3.2	2.7	2.5	2.7	2.0	1.4	0.9	0.6	0.1
In percent of exports, f.o.b.	1.7	1.8	1.7	1.9	2.0	1.7	1.6	1.8	1.4	1.0	0.7	0.4	0.1
In percent of GDP	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.0
In percent of quota	10.9	12.3	11.8	14.3	16.0	14.5	14.4	16.5	12.9	9.5	6.9	4.4	0.9
Net use of Fund credit													
(in millions of SDRs)	-2.8	11.2	-10.3	-27.9	-33.3	-31.2	-26.2	-25.3	-19.6	-14.3	-10.0	-7.1	-1.4
Disbursements	14.3	32.3	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	17.1	21.1	20.8	27.9	33.3	31.2	26.2	25.3	19.6	14.3	10.0	7.1	1.4

Sources: International Monetary Fund, Treasurer's Department; and staff estimates and projections.

1/ Reflects HIPC interim assistance granted until end-December 2001 and expected delivery of assistance after the completion point.

Table 8. Senegal: WAEMU Convergence Criteria 1998-2003
(In percent, unless otherwise indicated)

	Ratio	1998	1999	2000	2001	2002	2003
				Est.		Proj.	
Primary criteria							
Basic fiscal balance / GDP	>=0	2.6	1.7	1.2	-1.9	1.5	1.5
Inflation (annual average)	3	1.1	0.8	0.7	3.2	3.0	2.0
Total nominal debt / GDP	70	91.1	85.3	87.4	82.6	59.4	55.2
Domestic arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary criteria							
Wages / fiscal revenue	<=35	37.0	33.9	32.7	30.6	30.1	28.9
Domestically financed investment / fiscal revenue	>=20	17.9	22.7	19.8	19.7	22.3	23.7
Current account deficit excluding current official transfers / GDP	<=5	7.8	7.9	8.1	7.5	7.4	6.5
Fiscal revenue / GDP	>=17	16.0	16.8	17.3	17.4	17.6	17.8

Sources: Senegalese authorities, and staff estimates and projections.

Corrected: 10/25/01

Table 9. Social Indicators in Senegal and Sub-Saharan Africa 1/

	Senegal	Sub-Saharan Africa
GNP per capita (US dollars)	520	510
Life expectancy at birth (years)	52	50
Infant mortality (per 1,000)	69	92
Child immunization against three main communicable diseases (percent)	68	...
Maternal mortality (per 1,000,000)	510	700
Pregnant women receiving prenatal care (percent)	56	...
Utilization of primary health care centers (percent)	48	...
Gross primary enrollment (percent of age group)	58	77
Of which : female	52	69
Access to safe water (percent)	50	47

Sources: World Bank, *World Development Indicators* ; and EBS/00/97 (6/2/00).

1/ Data for latest available year.

REPUBLIC OF SENEGAL

MINISTRY OF ECONOMY AND FINANCE

The Minister of Economy and Finance

Dakar, August 30, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler,

1. The Executive Board of the International Monetary Fund approved the third annual arrangement under the Poverty Reduction and Growth Facility on February 16, 2001. A first tranche in an amount of SDR 14.268 million was disbursed in February 2001, and the government would like to draw the remaining amounts under the third annual arrangement, equivalent to SDR 28.536 million, in three tranches. The first tranche of SDR 9 million will be disbursed after the Executive Board completes the first review. A second tranche equivalent to SDR 9 million will be available on the basis of the observance of performance criteria established for September 30, 2001, and the last tranche equivalent to SDR 10.536 million will be available on the basis of the observance of performance criteria established for December 31, 2001.

2. The discussions on the economic outcomes through end-June and the 2001 program took place in Dakar during the period June 19-July 5, 2001 and in Washington during July 23-31, 2001. In particular, the discussions were concerned with policies and measures that would allow Senegal to intensify its efforts to reduce poverty and maintain stable economic growth, low inflation, and healthy budgetary policies. All the quantitative and structural performance criteria of the program have been met except for the May 1, 2001 structural criteria on the introduction of a single-rate VAT and the reintroduction of the pass-through mechanism for petroleum products. Given the corrective measures the government has taken in these areas, it requests the necessary waivers to complete the first review of the program. The attached memorandum on economic and financial policies presents the objectives of the government of Senegal for the second half of 2001 and the policies it will put in place to attain these objectives. The government of Senegal will provide the Fund with such information as the Fund requires to evaluate Senegal's progress in implementing its economic and financial policies and achieving the program objectives.

3. The government believes that the policies and measures set forth in the memorandum on economic and financial policies are adequate to achieve the objectives of the program but it will take further measures, if deemed necessary. During the period of the third annual arrangement, the government will continue to consult with the Managing Director on the adoption of any measure deemed appropriate, at its own initiative or whenever the Managing Director requests such a consultation. In addition, after the period covered by the third annual arrangement and while Senegal has financial obligations to the Fund arising from loans granted under this arrangement, the government will consult with the Fund periodically, at the government's initiative or whenever the Managing Director requests a consultation on Senegal's economic and financial policies.

4. The government of Senegal will conduct with the Fund a second review of the 2001 program supported by the third annual PRGF arrangement by December 15, 2001 and a third review by February 15, 2002.

Sincerely yours,

/s/

Cheikh Hadjibou Soumaré
Minister Delegate in charge of the Budget and Housing

Attachments: Memorandum on economic and financial policies for 2001 and
technical memorandum of understanding

SENEGAL

Memorandum on Economic and Financial Policies for 2001

Dakar, August 15, 2001

1. In its letter dated January 31, 2001 and its attached memorandum, addressed to the Managing Director of the International Monetary Fund, the government of Senegal outlined a strategy to promote strong and sustainable growth that would contribute to the reduction of poverty. In this context, the government defined economic and financial objectives for 2001, as well as the policies it would pursue in order to achieve these objectives. To support the government's policies, the Fund approved the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 42.804 million on February 16, 2001 and extended the commitment period of the arrangement to April 19, 2002. This memorandum assesses the results achieved in 2000 and in the first quarter of 2001 and examines the slippages from program objectives that have occurred. It also describes the objectives and the policies to be implemented in the second half of the year to maintain macroeconomic stability and to strengthen the foundation for sustainable and lasting growth.

I. Results Achieved in 2000 and in the First Quarter of 2001

2. **Macroeconomic results in 2000 and in the first quarter of 2001 were broadly consistent with program targets.** In 2000, Senegal recorded strong growth (estimated at 5.6 percent), particularly as a result of growth in the agricultural and telecommunications sectors. However, the volume of both exports and imports contracted slightly, owing to the decrease in the quantity of fish exported and the decline in food imports. The very good harvest of agricultural products and the freezing of retail prices for petroleum products helped to curb the increase in consumer prices and to hold the annual inflation rate at 0.7 percent. Despite the widening of the external current account deficit (to 8.1 percent of GDP excluding official current transfers), brought about by the deterioration in the terms of trade, international reserve losses were limited because of large inflows of private capital (including suppliers' credits). These broad trends continued in the first quarter of 2001.

3. **As regards the program,** the quantitative performance criteria and benchmarks set for December 31, 2000 and March 31, 2001 were observed, with the exception of the benchmarks pertaining to petroleum subsidies—which exceeded the ceiling set for December 31, 2000 by CFAF 4 billion—and the benchmarks for March 31, 2001 concerning the deficits of the National Retirement Fund (FNR) and the postal service (SN La Poste). As regards the structural performance criteria, the results are as follows:

- The single taxpayer identification number (NINEA) was adopted as planned by all revenue-collecting agencies on March 31, 2001. However, the tax department decided to use the NINEA and the account number for taxpayers in parallel for tax enforcement purposes until December 31, 2001.

- The pass-through mechanism for petroleum products that is linking domestic retail prices to international prices was reactivated on June 29, 2001, somewhat later than scheduled. However, owing to the decrease in international petroleum prices, subsidies remained below the budgeted ceiling of CFAF 12 billion. Prices have been adjusted regularly (every four weeks) since June 29, 2001. The government has decided to continue the policy of subsidizing small bottles of butane as an integral part of the poverty reduction and environmental protection strategy.

- The value-added tax (VAT) at the unified rate of 18 percent will be adopted in a special session of the National Assembly and introduced in early September 2001, somewhat later than the target date of May 1, 2001, owing to legislative elections. The list of exemptions will be largely conform with the West African Economic and Monetary Union (WAEMU) directive in this area.

Moreover, two structural benchmarks were implemented with delays:

- The audit report on the postal service was submitted to Fund staff on August 14, 2001 instead of March 31, 2001.

- The legal texts concerning the use of the WAEMU budget classification, originally expected to be completed by June 30, 2001, will be adopted in September 2001.

4. **Fiscal position in 2000.** Government revenue in 2000, up 0.8 percentage point of GDP from 1999, slightly exceeded program targets and for the first time reached the WAEMU convergence criterion of 17 percent of GDP. At the same time, lower-than-programmed current expenditure contributed to a basic fiscal balance that exceeded program targets by CFAF 3 billion. The overall deficit (on a commitment basis and excluding grants) totaled CFAF 60.8 billion (2 percent of GDP), compared with CFAF 88.8 billion (2.9 percent of GDP) under the program, because of a significant shortfall in externally financed capital outlays.

5. **Liquidity problems at the treasury.** In the first quarter of 2001, the trends in fiscal revenue observed in 2000 continued and total expenditure remained below projections; as a result, the government met the program's target for the basic budgetary balance. However, the government has been unable to reduce the deficits of the special accounts of the treasury, notably those of the FNR, and of the correspondent account of the postal service at the treasury. In addition, two developments resulted in liquidity shortages at the treasury: (a) the use of government resources as guarantee deposits to enable certain public enterprises to obtain bank loans; and (b) the unexpectedly low amount of external budgetary assistance.

6. **Heavily Indebted Poor Countries (HIPC) Initiative and priority expenditure.** In 2000, the government received a total of CFAF 4.2 billion under the HIPC Initiative, which was used to finance the subsidy for butane gas used by the poor. In the first half of 2001, the

netting out of debt relief prevented the government from depositing the full amount of available interim assistance into the HIPC account that was opened at the Central Bank of West African States (BCEAO). However, the government took the necessary steps to pay all the assistance already received in 2001 into the HIPC account on June 30, 2001. The National Assembly will discuss in August 2001 a supplementary budget authorizing the use of CFAF 23.4 billion available under the HIPC Initiative in 2001.

7. **The money supply continued to expand rapidly** in 2000 (10.7 percent) and during the first quarter of 2001. Credit to the economy increased sharply, despite the tightening of monetary policy by the BCEAO in June 2000. The financial problems of the state-owned groundnut company (SONACOS) and of the national power company (SENELEC) led these enterprises and some of their creditors to borrow heavily from banks. On March 31, 2001, the 12-month growth of credit to the economy reached 25 percent. Government borrowing from the banking system was down in 2000, owing to the sustained revenue collection, expenditure control, and the accumulation of deposits by certain public agencies in commercial banks. In line with the program, the government's repurchase of the SENELEC shares held by the Hydro-Québec/Elyo group in early 2001 resulted in a deterioration of the government's net bank credit position from December 2000. Because some of its deposits in commercial banks were frozen, the government had to use statutory advances amounting to approximately CFAF 15 billion.

8. Senegalese banks posted large profits in 2000 and observed the prudential ratios in a satisfactory manner. However, the share of nonperforming loans relative to credit to the economy rose from 5.8 percent to 6.1 percent of credit.[1]

II. Economic Policy and Measures to be Implemented in 2001/02

A. General Context of Economic Developments

9. In the coming months, the government will give priority to strengthening the financial position of certain public enterprises and the liquidity of the treasury. To achieve these objectives, the government will take decisive steps in several sectors—particularly the groundnut and energy sectors—to limit the possible repercussions of their difficulties on government finances and the banking system. Implementation of the measures envisaged will help to maintain a stable macroeconomic environment for the Senegalese economy, characterized by stable growth, moderate inflation (reflecting the introduction of the single-rate VAT), prudent expansion in credit to the economy, and a slight improvement in the external current account deficit.

[1] Outstanding 1999/2000 crop credits were converted into ordinary loans but not classified as nonperforming loans.

B. SONACOS and SENELEC

10. **The financial problems of SONACOS**. SONACOS is experiencing serious financial problems. As a result of good rains and an agricultural policy marked by a wider distribution of seeds and lower fertilizer prices, the production of groundnuts nearly doubled between 1999 and 2001. However, unfavorable world market conditions for groundnut oil prevented SONACOS from selling all the groundnut oil it had produced in 2000. Moreover, the increased supply of Senegal, which is one of the world's leading producers, contributed to a fall in international prices. Burdened with a sizable operating deficit, SONACOS found it impossible to repay most of the bank loans granted for the 1999/2000 season. Thus, in December 2000, crop credits totaling approximately CFAF 33 billion were converted into ordinary loans with higher interest rates. To finance the 2000/01 groundnut campaign, SONACOS raised CFAF 30 billion in new loans abroad and borrowed CFAF 40 billion from the local banking system. At end-May 2001, SONACOS's debt totaled CFAF 118 billion. Financing from local banks could only be secured with the support of the treasury, which assumed some of the risk through the guarantee deposits it placed at commercial banks (totaling CFAF 30 billion at June 30, 2001). Given an unchanged international environment, SONACOS will be unable to repay all its debts in 2001. According to the latest projections, which are based on the most recent information regarding export contracts and the assumption that SONACOS will increase sales on the local market, the remaining stock of bank debt will reach CFAF 65 billion at end-2001.

11. To ensure a smooth 2001/02 groundnut season, the government has decided to settle the debt of SONACOS that will be outstanding at end-2001 (CFAF 65 billion). This exceptional operation will be financed through the treasury's guarantee deposits at the commercial banks (associated with loans contracted by SONACOS—CFAF 30 billion at end-June 2001) and through external concessional resources. To keep the sector sustainable without future government financial support, the government, in agreement with the World Bank and the European Union, will adopt a series of measures aimed at liberalizing the sector and preparing the privatization of SONACOS. The privatization will be finalized well ahead of the first planting in 2003. These measures include (a) the fixing and public announcement by August 31, 2001 of producer prices based on the *accord cadre* for the sector; (b) the completion by end-December 2001 of a financial audit of SONACOS and its subsidiary SONAGRAINES covering 1999, 2000, and the first half of 2001; and (c) the withdrawal of SONAGRAINES from the collection and transport of groundnuts by end-2001 and from the distribution of seeds and fertilizer before the 2002/03 season, which will allow for a reduction in the operating costs of SONACOS. This set of measures, described in detail in Table 3, will help generate a surplus of about CFAF 20 billion in the 2001/02 season, which will be transferred to the government to reduce the stock of public debt. Before its privatization, SONACOS will not contract any nonconcessional external loans with the exception of short-term export related credits of less than one year maturity and will adhere to the program ceilings as regards its outstanding debt to the local banking system.

12. **SENELEC's difficulties.** On December 29, 2000, the government signed an agreement to buy back the equity shares of the strategic private investor in SENELEC. The cost of the repurchase was paid in full in two tranches of CFAF 22.6 billion each in the first quarter of 2001. SENELEC's overall position has deteriorated in 2001. Overused for several years, its production facilities are outdated and can neither generate electricity at competitive prices nor satisfy demand. This problem is exacerbated by an inefficient split between base load plants, using heavy fuel oil, and other turbines. The rise in fuel prices greatly increased SENELEC's operating deficit and prevented the self-financing of necessary investments. Owing to the cancellation of the management contract with private investors, local banks have reduced SENELEC's access to credit, and the company has been unable to meet its financial commitments to foreign and domestic suppliers. Arrears to distributors of petroleum products amounted to CFAF 17 billion on June 30, 2001, and the company owed approximately CFAF 23 billion in additional payments to other suppliers. Therefore, for the second half of 2001 financing estimated at CFAF 40 billion is required to settle the outstanding arrears, besides a fiscal subsidy of CFAF 7.5 billion to offset the return to market-based pricing for petroleum products. The government is determined to complete the SENELEC privatization process initiated in cooperation with the World Bank. To this end, an invitation for bids was published in early July 2001 that will allow completing the privatization by November 15, 2001, consistent with the terms of the World Bank energy sector loan.

13. In these circumstances, the government is committed to taking immediate action to resolve SENELEC's financial crisis and thus avert adverse repercussions for the economy as a whole, the company's main suppliers, and the banking system. Accordingly, the government will provide SENELEC with exceptional financial support amounting to CFAF 40 billion by issuing treasury bills, primarily to settle the company's payments arrears as of June 30, 2001. After the privatization of SENELEC, which the government expects by November 15, 2001, the private investor will have the freedom to adjust tariffs in agreement with the regulatory commission. In case the privatization is not finalized by November 15, 2001, the government will adjust electricity tariffs generating CFAF 6.5 billion in additional revenue on an annual basis. Together with the specific measures mentioned in Table 4, which have been established in collaboration with the World Bank, this measure will help eliminate SENELEC's operating deficit in the second half of 2001. Before its privatization, SENELEC will not contract any nonconcessional external loans and will observe the program ceilings concerning its arrears to domestic and foreign suppliers.

C. Government Finances

14. The measures planned by the government to solve the problems faced by SENELEC and SONACOS will result in a deterioration of the fiscal balances compared with the program. Under the revised program for 2001, the basic fiscal deficit would reach CFAF 63.2 billion (1.9 percent of GDP) and the overall deficit (on a commitment basis, excluding grants) would reach CFAF 198.2 billion (5.8 percent of GDP). By contrast, the original program amounts are a basic fiscal surplus equivalent to 0.2 percent of GDP and an overall deficit equivalent to 3.8 percent of GDP. To offset some of the costs incurred in

restructuring the two public enterprises, the government intends to increase fiscal revenue collection by CFAF 13 billion above programmed targets, of which CFAF 8 billion has already been realized in the first six months of 2001. As regards the VAT at the single rate of 18 percent, the government has submitted a detailed list of exempt products to Fund staff. The limited scope of these exemptions will facilitate the attainment of the program's fiscal revenue targets in 2001 and 2002. The government will also contain the wage bill at CFAF 181 billion in 2001, representing savings of CFAF 5 billion compared with program projections. The government will continue to give the highest priority to social outlays—particularly spending aimed at reducing poverty—and will limit to a minimum expenditure in nonpriority sectors.

15. Given the difficulties caused in 2000 and 2001 by placing government resources as guarantee deposits at commercial banks, the government has decided to discontinue providing this type of financial support to public enterprises. Such use of government resources entails several negative consequences: (a) liquidity problems at the treasury; (b) the destabilization of government finances; (c) a poor allocation of bank credit favoring enterprises in difficulty; and (d) the deterioration of the financial position of such enterprises because reforms are postponed. Consequently and from now on, such guarantees will be strictly limited to those specified by the procedures governing guarantees as described in the legal texts, and the ceilings set by the budget law on guarantees will be strictly enforced.

16. **In the first six months of 2001, the postal service** accumulated a deficit of roughly CFAF 13.1 billion in its correspondent accounts at the treasury, representing a serious drain on liquidity. Part of the reason for this deficit is the failure of the postal service to reimburse the treasury advances extended to it every ten days. In July 2001, the postal service contracted an external loan of €15 million secured by its future income. These resources enabled the postal service in July 2001 to reimburse the deficit in the correspondent accounts that it had accumulated since the beginning of the year and to repay treasury advances. The government believes that the structural measures undertaken by the management of the postal service will enable the company to reimburse over the next three years the external loan from its own resources. Moreover, the government will set up a committee including a representative of the Public Audit Office's Public Enterprise Audit and Control Commission to undertake a systematic reconciliation of financial flows in the first half of 2001 between the postal service and the treasury. This committee will issue recommendations to clarify the accounting procedures linking the two entities and, if deemed necessary, propose a new framework for the relations between the treasury and the postal service. At the request of the management of the postal service, the World Bank will provide technical assistance to analyze its structural difficulties and recommend steps to ensure its financial viability.

17. Given the financial difficulties faced by the public enterprises and the strain that these enterprises place on the government budget, the quantitative performance criteria for September 30, 2001 need to be revised.

D. Structural Reforms

18. **Privatization program.** The privatization program has been delayed as a result of the government's desire to review the program's priorities and framework. Some progress has been made regarding the Dakar-Bamako rail link, a capital increase is under consideration for SODEFITEX (cotton company), and negotiations with investors interested in MSAD (tapestry company) are in the final phase. The government is continuing its consultations with the World Bank on the privatization of the other enterprises (2 have already been privatized), which will allow it to meet its objective to privatize 11 enterprises between the decision point and the completion point under the HIPC Initiative.

19. The structural problems caused by the aging of the civil service are contributing to a growing FNR deficit; the cost of the budget is currently projected at CFAF 9 billion for 2001. With a view to **reforming the retirement system,** the government will introduce a bill during the budgetary session of the National Assembly in October 2001 that will help achieve financial balance of the FNR by 2002. To this end, it will prepare draft legislation and regulations on the reform of the pension system in consultation with employers and unions.

20. **Governance.** The government has taken steps to improve governance and transparency in managing public funds, including audits of numerous public and semipublic enterprises and agencies, as well as the regular production and publication of treasury balances. The *comptes de gestion* and *loi de règlement* will be submitted to the Public Audit Office within the time limits indicated in WAEMU directives. The government has also accepted the visit of an ROSC mission in the area of government finance to take place at the beginning of 2002. A similar mission in the area of statistics is expected in Dakar in September 2001.

E. Monetary and Banking Sector

21. **The Senegalese banking system,** restructured in the early 1990s, was weakened by the above-mentioned problems in the groundnut and energy sectors and by the resulting concentration of bank risk. On March 31, 2001, outstanding loans to the groundnut and energy sectors that were not backed by the government accounted for nearly 21 percent of total credit to the economy. Payment of this bank debt by the government will enable local banks to reduce their exposure in these two sectors, dispose of resources necessary to finance the next crop year, and diversify their loan portfolios. However, the next crop year must be financed in accordance with the relevant BCEAO guidelines, necessitating (a) a minimum of self-financing to be required by the banks; (b) where applicable, the coverage of projected deficits; (c) the reimbursement of bank loans and commercial paper at maturity; (d) an effective means of monitoring the physical stocks linked to the loans granted; and (e) the limiting of refinancing to no more than 90 percent of bank loans and issued commercial papers.

22. **Monetary policy**, which is conducted at the regional level, will aim at strengthening the economic and financial balances and the external position. The adjustment measures to be implemented in public enterprises and the ending of the use of guarantee deposits will help the government to contain credit expansion to the economy. However, the government will borrow an additional CFAF 46.9 billion from the banks over original program amounts to finance the deficits of SENELEC and SONACOS. The government will use privatization receipts up to the amount of treasury bills issued to clear SENELEC arrears and any budgetary assistance beyond programmed amounts to repay its domestic debt. To comply with the regional objective of eliminating the use of statutory advances on December 31, 2001, the government will give priority to repaying such advances.

F. External Sector and Balance of Payments

23. **External tariff and regional integration.** To attain the regional objectives defined by the WAEMU, the government has implemented the Common External Tariff and adopted the procedures relating to the temporary protection tax (TDP) and the compensatory import levy (TCI). It has also abolished the surtaxes on several food products. The government will continue to support regional initiatives, particularly with respect to the regional investment and mining codes, as well as the directive on the taxation of petroleum products currently under consideration.

24. **Balance of payments.** In 2001, the external current account deficit (excluding current official transfers) is expected to decline from 8.1 percent of GDP in 2000 to 7.5 percent of GDP, owing to a larger increase in exports (mainly groundnuts and phosphates) than in imports. Based on a projection of sizable inflows of private capital and sustained external assistance, the Senegal's foreign assets held by the BCEAO are projected to rise by nearly CFAF 28 billion in 2001.

G. HIPC and PRSP

25. The preparation of the full **poverty reduction strategy paper (PRSP)** has been delayed, primarily because of the difficulties experienced in funding a number of field surveys. However, the national seminar to launch the process was held in June 2001, and the government intends to make up for most of the delay in the coming months, so as to produce the final PRSP by December 31, 2001 as planned. Consequently, the schedule for preparation of the PRSP has been revised in order to meet this objective.

26. The documents prepared by the government for the launching of the consultative process provide a detailed picture of the extent of poverty in Senegal, particularly its incidence in rural areas.[2] In the context of thematic groups, regional consultations, and a

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[2] The document assessing poverty in Senegal was prepared with statistical data from the first household consumption budget survey (ESAM), conducted in 1994. ESAM II, which will be completed in April 2002, will be used to update the data on the characteristics of poverty.

media campaign, the government will promote dialogue among the various social groups, which thus will be able to share their cumulative experience in the area of poverty reduction. These meetings will encourage active participation by members of government, civil society, and development partners involved in the process of preparing the PRSP. The final document will therefore benefit from a wide range of inputs and serve as a framework for government activity.

27. **Use of HIPC resources.** HIPC-related resources are deposited in a special account at the BCEAO, and their exclusive use in the priority sectors will be specified in a supplementary budget that will be discussed by the National Assembly in August 2001.[3] Monitoring the expenditure is not expected to pose any particular problems, and the government's capacity to monitor HIPC-related expenditure will also be assessed during a forthcoming mission by the Fiscal Affairs Department of the IMF. This mission will identify any weaknesses and, where applicable, propose the most appropriate ways of correcting them.

III. Program Monitoring

28. Implementation of the government's program will be monitored through the quantitative and structural performance criteria and benchmarks described in detail in the attached technical memorandum of understanding. To monitor the structural reform program until end-2001, the amount of SDR 28.536 million that was not disbursed under the third annual arrangement will be disbursed in three tranches. The first tranche of SDR 9 million will be disbursed after the completion of the first review of the third annual arrangement by the Fund's Executive Board. A second tranche of SDR 9 million will be disbursed based on the observance of the performance criteria for September 30, 2001, and the final tranche of SDR 10.536 million will be disbursed based on the observance of the performance criteria for December 31, 2001.

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[3] The additional cost of CFAF 4.5 billion incurred in 2001 by freezing the prices of small bottles of butane will be financed with HIPC-related resources.

Table 1. Senegal: Quantitative Performance Criteria and Benchmarks, 2000–01 1/

(In billions of CFA francs, unless otherwise indicated; cumulative from the beginning of the year)

	December 30, 2000		March 31, 2001		June 30, 2001		September 30, 2001		December 31, 2001	
	Benchmark 2/	Prel.	Performance criteria 2/	Prel.	Benchmark 2/	Prel.	Prog. 2/	Rev. prog. performance criteria	Prog. 2/	Rev. prog. performance criteria
Performance criteria and benchmarks										
Floor on the basic budgetary balance 3/	34.1	37.2	-10.3	13.9	19.4	51.0	29.3	5.8	7.7	-63.2
Ceiling on the stock of net bank credit to government	182.6	160.2	207.7	181.7	186.0	135.0	185.4	203.0	165.7	190.2
Ceiling on subsidies due to the freeze on the prices of petroleum products (excluding butane) 4/	24.4	28.5	9.0	6.8	12.0	8.0	...	...	...	...
Ceiling on the stock of government domestic payments arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the stock of government external payments arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the stock of debt of SONACOS	...	...	...	...	...	116.7	...	98.0	...	0.0
Ceiling on the stock of arrears of SENELEC	...	...	...	...	...	41.0	...	0.0	...	0.0
Ceiling on the stock of government guarantee deposits	...	15.7	...	33.0	...	43.5	...	43.5	...	4.0
Quantitative benchmarks										
Floor on fiscal revenue	533.4	537.1	135.0	140.7	291.1	300.3	434.6	445.1	579.1	592.1
Ceiling on the wage bill	177.4	175.8	46.5	44.4	93.1	88.3	139.9	135.9	186.0	181.0
Floor on the deficit (-) of the postal service in the correspondent accounts of the treasury	-4.7	-3.8	0.0	-8.8	0.0	-13.1	0.0	0.0	0.0	0.0
Floor on the deficit (-) of the National Retirement Fund in the special accounts of the treasury	...	...	-1.5	-2.3	-3.0	-4.4	-4.5	-6.6	-4.5	-9.0
Memorandum items:										
Exceptional financial assistance	37.5	40.5	41.7	29.4	50.0	29.4	52.0	29.4	91.7	102.7
Programmed privatization receipts	2.9	2.9	0.0	0.0	0.0	0.0	1.1	1.1	1.1	21.1
Programmed unspent HIPC Initiative debt relief	0.0	0.0	5.1	0.2	10.2	9.7	11.7	9.2	0.0	3.8
Additional expenditures related to restructuring the social security system	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	0.0

1/ The criteria, benchmarks, and adjusters are defined in the technical memorandum of understanding.

2/ EBS 01/9 (1/31/01).

3/ Overall budget deficit, excluding foreign-financed investment expenditure and gross lending; budgetary revenue excludes privatization receipts, which are treated as a financing item.

4/ Subsidies are defined on the basis of volumes consumed (see the technical memorandum of understanding) and therefore do not necessairly correpond to the values in the fiscal table.
The continuous criterion on the application of the pass-through mechanism for petroleum products implies a non-accumulation of subsidies after the reintroduction of the mechanism on June 29, 2001.

5/ These criteria will be monitored on a continuous basis.

6/ For 2000, the ceiling does not apply to a nonconcessional loan of CFAF 8 billion, with a maturity of more than 12 years, from the West African Development Bank (see paragraph 38 of the PFP of June 4, 1999).

Table 2. Senegal: Prior Actions, Structural Performance Criteria (*) and Structural Benchmarks

Prior Actions for the Completion of the First Review

- Submission of a list of exempt food products and estimate of full-year VAT yield to Fund staff;
- submission to the National Assembly of a bill introducing a VAT at a single rate of 18 percent, with a limited number of exemptions and in accordance with the relevant WAEMU directive, and implementation of the law;
- automatic adjustment of the prices of petroleum products, excluding 2.7-kg and 6-kg bottles of butane gas, during the months of July, August, and September to reflect international price movements;
- submission of the audit report on the postal service to Fund staff;
- announcement of a producer price for the 2001/02 groundnut crop year that is in line with the *accord cadre* and consistent with international prices and the financial situation of the groundnut sector;
- launch of the invitation for internationally recognized audit firms to bid for an audit of SONACOS and SONAGRAINES covering 1999 and 2000 and the first half of 2001.

Structural Performance Criteria (*) and Structural Benchmarks

September 30, 2001

- Announcement of the complete withdrawal of SONAGRAINES from the collection and transport of groundnuts as of the 2001/02 crop year; (*)
- submission of an action plan for the withdrawal of SONAGRAINES to Fund staff;
- submission to Fund staff of the report by the committee responsible to (i) clarify flows in the correspondent accounts of the postal service at the Treasury during the first half of 2001 and (ii) develop recommendations to simplify accounting procedures linking the postal service to the Treasury; (*)
- revision of the *accord cadre* for the groundnut sector. (*)

November 15, 2001

- Adjustment of electricity tariffs consistent with the regulatory formula for the electricity sector in case SENELEC has not been privatized by November 15, 2001; (*)

December 31, 2001

- Submission of the SONACOS and SONAGRAINES audit report to Fund staff; (*)
- complete withdrawal of SONAGRAINES from the collection and transportation of groundnuts;(*)
- submission to Parliament of a bill modifying the National Retirement Fund (FNR) and ensuring its financial balance from 2002 onward; (*)

- replacement of the levy on imported vegetable oil with a protection mechanism in accordance with the WAEMU regulation and consistent with the revised *accord cadre*.

Continuously

Application of the pass-through mechanism for retail prices of petroleum products except for 2.7- and 6-kg bottles of butane gas during the period of the third annual PRGF arrangement.

Table 3. Senegal: Matrix of Structural Measures in the Groundnut Sector

Measure	Timing	Expected Results
In consultation with the European Union, assess and update the *accord cadre*, which will be strictly applied in future.	September 30, 2001	Prepare SONACOS's privatization and restore the sector's financial balance.
Implement procedure for private deliveries of groundnuts to factories.	October 31, 2001	Reduce collection costs and restructure marketing channels.
Conclude financial audit of SONACOS and SONAGRAINES covering 1999, 2000, and the first six months of 2001.	November 30, 2001	Improve the transparency of the two companies' financial statements.
Remove SONAGRAINES completely from the collection and transport of groundnuts (private financing of collection, private collection, calculation of the costs of intermediation on a private basis).	November 30, 2001	Reduce collection costs and eliminate marketing losses.
Remove SONAGRAINES completely from the function of providing seeds for credit; strengthen and increase the accountability of private operators.	November 30, 2001	Implement financial restructuring of SONACOS and prepare it for privatization.
Entrust the management of selected seed stocks to private operators.	December 31, 2001	Implement financial restructuring of SONACOS and prepare it for privatization.
Reduce the number of loading ports per ship in export operations.	January 31, 2002	Reduce c.i.f costs.
Complete privatization of SONACOS.	Well before the first planting of 2003	Remove the government from credit and production activities that are a burden on public finances.

Table 4. Senegal: Matrix of Structural Measures in the Energy Sector

Measure	Timing	Expected Results
Financial audit of SENELEC accounts.	The audit is under way and will be completed by September 30, 2001	Greater transparency of the enterprise's accounts in preparation for privatization.
Improve collection of bills.	September 30, 2001	Increased revenue.
Reduce nontechnical electricity losses.	Ongoing	Increased revenue.
Reduce demand during peak hours.	September 30, 2001	Reduction in the frequency of power outages.
Use tariff adjustment formula in accordance with the legal sectoral framework, as specified in paragraph 13 of the MEFP.	November 15, 2001	Increased revenue.
Privatize SENELEC.	November 15, 2001	Regular supply of power to productive sectors and elimination of subsidies paid by the government.
Renovate TAG 2 power plant.	December 31, 2001	Meeting of demand.

INTERNATIONAL MONETARY FUND

SENEGAL

Technical Memorandum of Understanding

Dakar, August 15, 2001

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks to monitor the program supported by the third annual arrangement under the Poverty Reduction and Growth Facility. It also establishes the terms and time limits for transmitting the data that will enable Fund staff to monitor program implementation and provides numerical illustrations of these criteria and benchmarks based on past outcomes.

I. Definition

2. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with separate legal personality.

II. Quantitative Performance Criteria

3. In the context of this program, quantitative performance criteria will be set for September 30, 2001 and December 31, 2001 for the basic fiscal balance, net bank credit to the government, the stock of debt of SONACOS, the stock of arrears of SENELEC, and the stock of guarantee deposits. The performance criteria pertaining to the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government, as well as domestic and external arrears, will be monitored on a continuous basis.

A. Basic Fiscal Balance

Definition

4. The basic **fiscal balance** is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure financed from abroad and gross lending. It includes the deficit of special and correspondent accounts at the treasury.

Performance criteria

5. The performance criteria for the basic fiscal balance are **floors** of CFAF 5.8 billion on September 30, 2001 and CFAF –63.2 billion on December 31, 2001.

Adjusters

6. The floor for the basic fiscal surplus on September 30, 2001 will be raised (lowered) by the shortfall (excess) in expenditure financed with debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, compared with the program. The floor for the basic fiscal deficit on December 31, 2001 will be lowered (raised) by the shortfall (excess) in expenditure financed with debt relief under the HIPC Initiative, compared with the program. The same adjustment will be made in the event of lower-than-programmed spending for the reimbursement of arrears of SENELEC and the debt of SONACOS.

Basic Fiscal Balance
(In billions of CFA francs, cumulative from the beginning of the year)

	12/31/00 Est.	3/31/01 Est.	6/30/01 Est.	9/30/01 Criterion	12/31/01 Criterion
I. Budgetary revenue	562.3	141.5	302.5		
II. Total expenditure	623.1	157.5	303.4		
III. Capital expenditure financed from abroad	86.6	29.6	43.9		
IV. Drawings on loans to be on-lent	11.4	0.1	8.0		
Basic fiscal balance = I – (II – III – IV)	37.2	13.9	51.0	5.8	-63.2

Reporting requirements

7. During the program period, the authorities will report monthly to Fund staff **provisional data** on the basic fiscal balance, with a lag of no more than 45 days. The data for **revenues, expenditures, and special and correspondent accounts** that are included in the calculation of the basic fiscal balance, **the expenditure financed with HIPC Initiative resources, and the expenditures on reimbursing the arrears of SENELEC and the debt of SONACOS will be drawn from preliminary treasury account balances**. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than **two months after the reporting of provisional data**.

B. Net Bank Credit to the Government

Definition

8. The definition of government for the purpose of calculating net bank credit to the government is the one applied by the BCEAO and is consistent with common IMF practice. It is broader than the definition of government in paragraph 2. Net bank credit to the government reflects the net credit position of the government—including postal checking accounts (CCP)—vis-à-vis the central bank and commercial banks. Net bank credit to the government is the difference between the government's gross borrowing from the banking system and its claims against the banks. Government claims include treasury cash holdings, deposits (including earmarked privatization receipts and other resources such as loans and

grants) at the central bank, deposits in commercial banks, and secured liabilities (*obligations cautionnées*). The government's debt to the banking system includes central bank credit (mainly statutory advances, IMF assistance, refinancing of secured liabilities, and the deposit by Kuwait), government securities held by the central bank, commercial bank credit (including government securities held by resident commercial banks), ex-ONCAD securities, and private deposits at the CCP. Government securities held outside the Senegalese banking system are not included in net bank credit to the government. The net bank credit to the government as calculated by the BCEAO serves as the basis for program monitoring.

Stock of Net Bank Credit to the Government
(In billions of CFA francs)

	12/31/00	3/31/01 Prel.	6/30/01 Est.	9/30/01 Criterion	12/31/01 Criterion
I. Total government claims	194.8	195.3	218.5		
II. Total government debts	355.0	377.0	353.5		
Net credit position of the government (II – I)	160.2	181.7	135.0	203.0	190.2

Adjusters

9. The ceiling on net bank credit to the government will be lowered (raised) by the amount by which disbursements of external budgetary assistance (defined as grants, program disbursements, and debt relief, excluding Fund resources and HIPC Initiative debt relief) exceed (fall short of) program projections. The adjustment will be for the full amount of any excess disbursement but will be limited to CFAF 20 billion in the event of a shortfall.

10. The ceiling will be adjusted for the difference between the amount of programmed unspent HIPC-related resources and actual unspent HIPC-related resources. Unspent HIPC-related resources are defined as the difference between the debt relief received under the HIPC Initiative and the additional expenditures in priority sectors that have been financed with these resources. The ceiling will be lowered (raised) for unspent HIPC-related resources exceeding (falling short of) programmed amounts.

11. The ceiling on net credit to the government will be lowered by the amount of treasury bills issued in the second half of 2001 that are held by an entity or person outside the definition of government established by the BCEAO for the purpose of calculating net credit to the government (para. 8). In addition, the ceiling will be lowered for lower-than-programmed expenditures for the reimbursement of arrears of SENELEC and debt of SONACOS, as well as for higher-than-programmed privatization receipts, which have not been allocated under the program.

Programmed External Budgetary Assistance
(In billions of CFA francs, cumulative from the beginning of the year)

	12/31/00 Est.	3/31/01 Est.	6/30/01 Est.	9/30/01	12/31/01
European Union	0.0	0.0	0.0	0.0	0.0
World Bank	37.5	20.2	20.2	20.2	93.5
Of which: trade credit	37.5	0.0	0.0	0.0	38.6
African Development Bank	0.0	9.2	9.2	9.2	9.2
Other	0.0	0.0	0.0	0.0	0.0
Total	37.5	29.4	29.4	29.4	102.7

Performance criteria

12. The performance criteria for the stock of net bank credit to the government under the program are ceilings of CFAF 203.0 billion on September 30, 2001 and CFAF 190.2 billion on December 31, 2001.

Reporting requirements

13. The BCEAO will report to Fund staff the **provisional data** on the government's net credit position to Fund staff **monthly, with a lag of no more than one month after the end of each observation period.** Final data will be reported with a maximum lag of two months.

C. Stock of Debt of SONACOS

Definition

14. The stock of debt of SONACOS includes all loans contracted with local and foreign banks. It includes also discounted letters of credit for which the respective export contracts have not yet been executed.

Performance criteria

15. The performance criteria for the stock of debt of SONACOS are ceilings of CFAF 98.0 billion on September 30, 2001 and CFAF 0.0 billion on December 31, 2001.

Reporting requirements

16. The government and the BCEAO will report monthly to Fund staff the stock of debt of SONACOS, the new debt contracted, and the debt-service payments made with a lag of no more than one month after the end of each period of observation.

D. Stock of Arrears of SENELEC

Definition

17. The stock of arrears of SENELEC includes all payments due and unpaid.

Performance criteria

18. The performance criteria for the stock of arrears of SENELEC are ceilings of CFAF 0.0 billion on September 30, 2001 and CFAF 0.0 billion on December 31, 2001.

Reporting requirements

19. The government will report to Fund staff monthly, with a lag of no more than one month after the end of each period of observation, the stock of arrears of SENELEC, the newly contracted debt, any new accumulation of arrears, and the debt service and arrears payments made.

E. Ceiling on Government Guarantee Deposits

Definition

20. Government guarantee deposits are defined as government deposits in local and foreign banks used to guarantee bank loans.

Performance criteria

21. The performance criteria for the stock of guarantee deposits are ceilings of CFAF 43.5 billion on September 30, 2001 and CFAF 4.0 billion on December 31, 2001. Under the program, the government will not place any new guarantee deposits.

Reporting requirements

22. The government will report to Fund staff monthly, with a lag of no more than one month after the end of each period of observation, the stock of government guarantee deposits.

F. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

Definition

23. This performance criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 12274-(00/85)

(08/24/2000), but also to commitments contracted or guaranteed for which value has not been received.

24. The definition of debt as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: **debt** will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (a) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (b) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (c) leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. Any debt with a grant element of less than 35 percent is considered nonconcessional. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

26. For purposes of this performance criterion, government is understood to include the government as defined in paragraph 2, as well as public administration of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, local administrations, public enterprises, and government-owned independent companies (*sociétés nationales*).

Performance criterion

27. Within the context of the program, the government as defined in paragraph 26 will not contract or guarantee nonconcessional external debt. This performance criterion is monitored on a continuous basis and does not apply to debt rescheduling and restructuring operations, short-term import-related credit and short-term pre-export financing secured on export contracts. Short-term credit refers to maturities of less than one year. It does also not apply to government bonds held by residents of countries in the West African Economic and Monetary Union.

Reporting requirements

28. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

G. External Payments Arrears

Definition

29. External payments arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government. Debt is understood as defined in paragraph 24.

Performance criterion

30. Under the program, the government will not accumulate any external payments arrears except for arrears arising from debt in the process of being renegotiated. This performance criterion will be monitored on a continuous basis.

Reporting requirements

31. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed.

H. Domestic Payments Arrears

Definition

32. Domestic payments arrears are duly certified domestic expenditure commitments cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared. They include duly certified commitments cleared for payment but not paid to public enterprises 90 days following the clearance date.

Performance criterion

33. Under the program, the government will not accumulate any domestic payments arrears. This performance criterion will be monitored on a continuous basis.

Reporting requirements

34. The authorities will report to Fund staff any accumulation of domestic payments arrears as soon as the 90 days period mentioned in paragraph 32 has elapsed. The government will also keep track of expenditure commitments (*dépenses engagés*) and commitments duly certified but not yet cleared for payment (*dépenses liquidées non encore ordonnancées*) in order to minimize delays in payments. The amounts of these payments will be provided for the discussions during the next review of the third annual PRGF arrangement.

III. Quantitative Benchmarks

Program Benchmarks
(In billions of CFA francs, cumulative from the beginning of the year)

	12/31/00 Est.	3/31/01 Est.	6/30/01 Est.	9/30/01 Benchmark	12/31/01 Benchmark
Tax revenue	537.3	140.7	300.3	445.1	592.1
Wage bill	175.8	44.4	88.3	135.9	181.0
S.N La Poste (postal service) deficit	3.2	8.8	13.1	0.0	0.0
National Retirement Fund deficit	6.5	2.3	4.4	6.6	9.0

A. Floor on Tax Revenue

Definition

35. Tax revenue is defined as the sum of government fiscal revenue included in the government financial operations table.

Benchmarks

36. The quantitative benchmarks set for tax revenue are floors of CFAF 445.1 billion on September 30, 2001 and CFAF 592.1 billion on December 31, 2001.

Reporting requirements

37. The government will report to Fund staff preliminary tax revenue data monthly, with a lag of no more than one month, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final balances of the treasury accounts are available, but no more than two months after the reporting of preliminary data.

B. Ceiling on the Wage Bill

Definition

38. The wage bill is defined as all government expenditure on wages, other compensation, bonuses, allowances, and social benefits granted to or paid for the benefit of civil servants and other public employees.

Benchmarks

39. The quantitative benchmarks set for the wage bill are ceilings of CFAF 135.9 billion on September 30, 2000 and CFAF 181.0 billion on December 31, 2001.

Reporting requirements

40. The government will report monthly to Fund staff the wage bill data, with a lag of no more than 45 days.

C. Floor on the Deficit of the SN La Poste (Postal Service) Treasury Account

Definition

41. The deficit on any date is defined as the difference between the cumulative withdrawals from the accounts of SN La Poste at the treasury and cumulative deposits into the same accounts during the year under consideration.

Benchmark

42. The deficit will either be zero or the account flows will show a surplus at September 30, 2001 and December 31, 2001.

Reporting requirements

43. The government will report to Fund staff the provisional deficit of the SN La Poste accounts on a monthly basis, with a lag of no more than 45 days.

D. Floor on the Deficit of the National Retirement Fund Special Account

Definition

44. The special account of the National Retirement Fund is located at the treasury. The deficit on the indicated date is defined as the difference between the cumulative withdrawals and cumulative deposits during the year under consideration.

Benchmarks

45. The deficit of the National Retirement Fund special account shall be limited to CFAF 6.6 billion at September 30, 2001 and CFAF 9 billion at December 31, 2001.

Reporting requirements

46. The government will report to Fund staff the deficit of the special account of the National Retirement Fund monthly, with a lag of no more than 45 days.

IV. Structural Performance Criteria and Benchmarks

A. Announcement of the Withdrawal of SONAGRAINES from the Collection and Transport of Groundnuts (Structural Performance Criterion)

47. The government will announce by September 30, 2001 the withdrawal of SONAGRAINES from the activity of collecting and transporting groundnuts from the 2001/02 groundnut campaign onward. The government's announcement will include that the collection of groundnuts will be undertaken by the private sector and the market will determine the costs of intermediation (financing, storing, and transportation) without reference to any official guideline.

B. Submission of an Action Plan to Fund Staff on the Implementation of the Withdrawal of SONAGRAINES (Structural Benchmark)

48. The government will submit to Fund staff by September 30, 2001 an action plan to implement a system of private deliveries to the factories of SONACOS and to remove SONAGRAINES from the activity of collecting and transporting groundnuts.

C. Submission to Fund Staff of a Report on the Accounts and the Accounting Procedures Linking the Postal Service and the Treasury (Structural Performance Criterion)

49. The government will submit to Fund staff by September 30, 2001 a report by an ad hoc committee that will include a **representative of the Commission de Vérification des Comptes et de Contrôle des Entreprises Publiques de la Cour des Comptes**. The report will clarify and verify the flows in the postal service's correspondent accounts at the treasury during the first half of 2001 and develop recommendations on how to simplify the accounting procedures linking the postal services and the treasury.

D. Update of the *Accord Cadre* of the Groundnut Sector (Structural Performance Criterion)

50. The government will finalize and submit to Fund staff by September 30, 2001 an update of the *accord cadre* on the groundnut sector. This update will ensure the consistency of the *accord cadre* with the measures the government will implement during the 2001/02

groundnut campaign and prepare the privatization of SONACOS well before the first planting of 2003.

E. Adjustment of Electricity Tariffs (Structural Performance Criterion)

51. In case the privatization of SENELEC has not been finalized by November 15, 2001, the government will adjust electricity tariffs on November 15, 2001 in accordance with a decision by the regulatory commission based on the regulatory formula specified in Article 10 of SENELEC's *Cahier des Charges.*

F. Submission of the Audit Report on SONACOS and SONAGRAINES to Fund Staff (Structural Performance Criterion)

52. The government will submit an audit report prepared by an internationally recognized auditing firm on the operations of SONACOS and SONAGRAINES in 1999, 2000, and the first half of 2001 to Fund staff by December 31, 2001.

G. Complete Withdrawal of SONAGRAINES from the Collection and Transportation of Groundnuts (Structural Performance Criterion)

53. The government will ensure that SONAGRAINES will cease all activities in the area of transportation and collection of groundnuts by December 31, 2001. The collection of groundnuts will be undertaken by the private sector and the market will determine the costs of intermediation (financing, storing, and transportation) without reference to any official guideline.

H. Application of the Pass-Through Mechanism for Retail Prices of Petroleum Products (Structural Performance Criterion)

54. The pass-though mechanism for the retail prices of petroleum products, with the exception of 2.7-kg and 6-kg bottles of butane gas, will be applied by the government without interruption throughout the remaining period of the third annual arrangement under the PRGF. This implies a zero ceiling on subsidies due to the freeze of the prices of petroleum products (excluding butane) from June 29, 2001, the date of reintroduction of the pass-through mechanism, onward.

I. Submission to National Assembly of a Draft Law Modifying the National Retirement Fund (Structural Performance Criterion)

55. The government will submit to the National Assembly by December 31, 2001 a draft law modifying the National Retirement Fund (FNR); the proposed law will allow the accounts of the FNR to be balanced from 2002 onward.

J. Replacement of the Levy on Imported Vegetable Oil (Structural Benchmark)

56. The government will replace by December 31, 2001 the levy on imported vegetable oil with a protection mechanism consistent with the respective WAEMU regulations as well as the updated *accord cadre.*

V. Additional Information for Program Monitoring

57. The authorities will report to Fund staff the following:

- the monthly government financial operations table;
- tax and customs assessments by categories, accompanied by the corresponding revenue collected by the treasury on a monthly basis;
- monthly amount of payment orders issued;
- Preliminary treasury account balances, on a monthly basis, with a maximum delay of 45 days;
- the quarterly report of the Direction de la Dette et des Investissements on execution of investment programs; and
- any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.

58. The central bank will report to Fund staff the following:

- the monetary survey, on a quarterly basis, with a lag of no more than two months;
- lending and deposit rates, on a monthly basis; and
- the usual banking supervision indicators for bank and nonbank financial institutions, on a quarterly basis.

Senegal: Relations with the Fund
(As of June 30, 2001)

I. **Membership Status**: Joined August 31, 1962; Article VIII as of June 1, 1996

II. **General Resources Account**:	SDR Million	Percent of Quota
Quota	161.80	100.0
Fund holdings of currency	160.39	99.1
Reserve position in the Fund	1.41	0.9

III. **SDR Department:**	SDR Million	Percent of Allocation
Net cumulative allocation	24.46	100.0
Holdings	0.69	2.8

IV. **Outstanding Purchases and Loans**:	SDR Million	Percent of Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	198.26	122.5

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	April 20, 1998	April 19, 2002	107.01	78.47
PRGF	August 29, 1994	January 12, 1998	130.79	130.79
Stand-By Arrangement	March 2, 1994	August 29, 1994	47.56	30.91

VI. **Projected Obligations to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	06/30/01	2001	2002	2003	2004	2005
Principal	0.0	9.7	20.8	27.9	33.3	31.2
Charges/interest	0.0	0.9	1.7	1.5	1.4	1.2
Total	0.0	10.6	22.5	29.5	34.7	32.5

Senegal: Relations with the Fund

VII. **Implementation of HIPC Initiative:**[1]

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	June 20, 2000
Assistance committed (NPV terms)[2]	
Total assistance (US$ million)	488.3
Of which: Fund assistance (SDR million)	33.8
Completion point date (expected)	March 2002
Delivery of Fund assistance (SDR million)	
Amount disbursed	4.78
Interim assistance	4.78
Completion point[3]	N/a
Amount applied against member's obligations (cumulative)	3.24

VIII. **Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Central Bank of West African States (BCEAO), of which Senegal is a member, is subject to the transitional procedures with respect to the PRGF arrangement, which is scheduled to expire on April 19, 2002. The transitional procedures require a review of only the BCEAO's external audit mechanism. This assessment determines whether the BCEAO publishes annual financial statements that are independently audited in accordance with internationally accepted standards. However, because the arrangements of some other member countries of the BCEAO were approved after June 30, 2000, the Fund conducted a full Stage-One safeguards assessment.

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[1] Senegal was not eligible for the HIPC Initiative under the original framework.

[2] NPV (net present value) terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.

[3] Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

Senegal: Relations with the Fund

The Stage-One safeguards assessment of the BCEAO has been completed and was approved by Fund management in July 2001. A fact-finding (on-site) mission has been proposed to the BCEAO for the fourth quarter of 2001 to obtain additional information on the BCEAO's internal control structure and to hold discussions with its management.

IX. **Exchange Rate Arrangement:**

Senegal is a member of the West African Monetary Union (WAMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions.[4] The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1. On August 1, 2001, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 938.45.

X. **Article IV Consultations:**

Senegal is on the standard 12-month Article IV consultation cycle. The 2000 Article IV consultation was completed by the Executive Board on June 21, 2000 (EBS/00/95, 6/1/00, and SM/00/104, 5/30/00).

XI. **Financial Sector Assessment Program (FSAP) Participation:**

A joint mission of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The FSSA was issued in August 2001 (SM/01/272, 8/24/01).

XII. **Technical Assistance:**

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	February–March 1996	Strengthening of tax and customs administration.

[4] The staff is keeping under active review all developments in Senegal's exchange system that may involve Fund jurisdiction.

Senegal: Relations with the Fund

FAD	Staff/consultants	January–February 1998	Assessment of revenue impact of new external tariff structure (TEC). Advice given to authorities on measures to correct revenue shortfall stemming from the introduction of TEC.
FAD	Staff/consultants	March 1999	Assessment of the reforms to value-added tax (VAT) required to offset the fiscal impact of the TEC.
STA	Staff	March-April 2000	Assessment of real sector statistics and proposal of improvements.
FAD	Staff/consultants	May 2000	Assessment of macrofiscal practices and review of the operation of special accounts at the treasury.
FAD	Staff/consultants	October 2000	Budgetary aspects of petroleum sector policies.
STA	Staff	April 2001	Assessment of the statistical capacity of the Directorate of Forecasting and Statistics.

XIII. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Koffi Yao since March 25, 2000.

XIV. Fourth Amendment of the Articles of Agreement and the Eleventh Quota Review

The authorities have indicated their agreement with the Fourth Amendment of the Articles of Agreement. The increase in Senegal's quota under the Eleventh General Review of Quotas was completed on February 11, 1999.

Senegal: Relations with the World Bank Group
(As of August 24, 2001)

Commentary on lending operations

1. The main objective of the Bank's assistance strategy for Senegal is to reduce the incidence of poverty and create gainful employment. The approved lending program for the period fiscal year (FY) 98-2000 under the Country Assistance Strategy (CAS) was implemented satisfactorily. To achieve the objective of the CAS, Bank support was a two-pronged strategy: (a) supporting policies and programs for more rapid and sustained growth; and (b) ensuring social sustainability of programs. The strategy was implemented through a combination of structural adjustment lending (energy sector reform and trade liberalization), sector investment programs (SIP), specific investment lending, and appropriate nonlending operations. Analytical work on the transitional costs of trade reform led to the preparation and approval in September 2000 of the Trade Reform Adjustment Credit. The public expenditure review (PER) has helped the government improve the size and composition of public expenditures in 1998-2000. To follow up on the achievement of the FY 1998-2000 Country Assistance Strategy (CAS), preparation of a new CAS is underway and is expected to be presented to the Board for endorsement in March 2002.

2. As of August 24, 2001, the World Bank had approved over 100 credits for Senegal for a total amount of about US$2.4 billion. Past projects had supported agricultural diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, emphasis had shifted to better utilizing and maintaining existing facilities and to helping the government resolve some of the key issues related to long-term development prospects. The current portfolio represents a commitment value of about US$948.3 million equivalent, with an undisbursed balance of about US$631.9. The portfolio is composed of 21 projects in various sectors (agriculture, human resources—population/health/nutrition/education, infrastructure/urban development, energy/water, industry, and private sector development) and one GEF grant for the sustainable participatory energy management. Three projects were approved in FY 2001: (i) an *Adjustment Operation (Trade Reform and Competitiveness)* to assist in liberalizing trade, facilitating trade and tax procedures, and supporting regulatory programs that promote competitive pricing of public utility inputs to the productive sector; (ii) a *Social Development Fund Program* to assist in building the capacity of the poor communities to effectively manage their own development resources and economic and social services with equal participation; and (iii) a *Long-Term Water project* to assist in achieving sustainable improvements in the delivery of urban water and sanitation services in unserved and low-income areas of the Capital city of Dakar and the secondary cities.

3. As of July 31, 2001, the International Finance Corporation (IFC) had six active investments totaling about US$42 million. They comprise two financial services; one fishery project; one leather manufacturing operation; one cement factory, and one power project (the first independent power project in Senegal). Two additional investments, a supplement to the power project, approved in FY 1998, and a Tourism project (SEF Royal Saly), approved in FY 2001, have not yet become effective.

4. The Bank and IFC continue to coordinate their respective roles in providing an enabling environment for private sector development for Senegal. The Bank is concentrating on factors that improve the business environment, and the IFC, with its office in Dakar, is increasing its direct support to the private sector, especially in the power, mining, small and medium-size businesses, privatization, and capital market areas.

Status of Bank Group Operations in Senegal—Operations Portfolio

(As of August 24, 2001)

Closed projects: 77

Project ID	Active Projects: Project Name	Last PSR Supervision Rating: Develop. Objective	Implement. Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	Grant	Cancel	Undisb	Difference Between Expected & Actual Disbursements: Orig.	Formally Revised
P002376	Private Sector Capacity Building	S	S	1995	0	12.5	0	0	1.3	-1.6	-1.8
P002346	Water Sector	S	S	1995	0	100.0	0	0	45.3	26.4	-9.1
P002373	Higher Education I	U	U	1996	0	26.5	0	0	6.8	-3.3	0
P035621	Pilot Female Literacy	HS	S	1996	0	12.6	0	0	1.1	-4.2	0
P041567	Endemic Diseases	S	U	1997	0	14.9	0	0	11.1	6.8	5.4
P046648	Regional Power	S	S	1997	0	10.5	0	0	3.0	0.6	0
P042056	Sustainable Particip. Energy Mgt.	S	#	1997	0	0.0	4.7	0	2.3	0.5	-0.1
P046768	Sustainable Particip. Energy Mgt.	S	S	1997	0	5.2	0	0	3.2	1.5	0.3
P051610	Agriculture Export Promotion	S	S	1998	0	8.0	0	0	5.0	2.4	0.2
P051357	Energy Sec. Adj.	S	S	1998	0	100	0	0	42.0	19.6	0
P002369	Integrated Health Sector Dev.	S	S	1998	0	50.0	0	0	27.6	12.2	0
P002365	Urban Dev. & Decentralization	S	S	1998	0	75.0	0	0	45.4	18.9	0
P002367	Agric. Services & Producer Orgs.	S	S	1999	0	27.4	0	0	22.1	12.6	0
P002366	Transport II	U	U	1999	0	90.0	0	0	76.5	14.7	0
P069198	Distance Learning Center - LIL	S	S	2000	0	2.1	0	0	1.0	-0.1	0
P057996	National Infrastructure Program	S	HS	2000	0	28.5	0	0	23.8	8.9	0
P047319	Quality Education For All	S	S	2000	0	50.0	0	0	41.9	-4.4	0
P055472	Urban Mobility Improvement	S	S	2000	0	70.0	0	0	65.0	5.9	0
P067498	Public Serv. Inform. Systems	S	S	2000	0	10.2	0	0	7.5	5.5	0
P041528	Long Term Water Sector	#	#	2001	0	125.0	0	0	123.5	0	0
P041566	Social Development Fund	#	#	2001	0	30.0	0	0	29.2	-0.4	0
P055471	Trade Reform & Competitiveness	S	S	2001	0	100.0	0	0	47.4	-10.3	0
				Result	**0**	**948.3**	**4.7**	**0**	**631.9**	**112.3**	**-5.1**

IBRD/IDA *	
Total Disbursed (Active)	250.9
of which has been repaid	0.00
Total Disbursed (Closed)	1,383.40
of which has been repaid	264.50
Total Disbursed (Active + Closed)	1,634.36
of which has been repaid	264.49
Total Undisbursed (Active) + GEF Grant	629.61
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	654.30

IFC - Committed and Disbursed Portfolio

(In millions of U.S. dollars, as of May 31, 2001)

FY Approval	Company	Held: Loan	Equity	Quasi	Participation	Disbursed: Loan	Equity	Quasi	Participation
1996/97/98	AEF SERT	0.12	0	0	0	0.12	0	0	0
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	Ciments du Sahel	13.03	2.28	2.28	0	0	0	0	0
1997	GTI Dakar	11.96	1.59	0	9.94	8.23	1.27	0	9.94
1998	SEF SENTA	0.21	0	0	0	0.21	0	0	0
1994/96	SOGECA	0	0.12	0	0	0	0.12	0	0
Total Portfolio:		**25.32**	**4.45**	**2.28**	**9.94**	**8.56**	**1.85**	**0**	**9.94**

Approvals Pending Commitment

	Loan	Equity	Quasi	Participation
2001 SEF Royal Saly	1.00	0	0	0
1998 GTI Dakar Incr.	3.11	0	0	0
Total Pending Commitment:	**4.11**	**0**	**0**	**0**

BHS = *Banque Habitat du Senegal* (financial); **SOGECA** = *Société générale de crédit automobiles* (financial); **SERT** = *Société d'exploitation des ressources thonnères* (fishery); **SOEX** = *Société d'exportateurs;* **ICS** = *Industrie chimiques de Sénégal* (chemical); **AEF** = Africa Enterprise Fund; **GTI** Dakar = Power Project ; **SEF SENTA** = Small Enterprise Fund *Senegal Tanerie* (leather); **GTI-DAKAR** = Power project **TOLSA**-Thiès =Mining operation in Thiès; **CDS** = Ciments du Sahel

Senegal: Statistical Issues

(As of August 14, 2001)

Overall, Senegal's economic database is comprehensive, but there are weaknesses in the data on national accounts, production, international trade, the balance of payments, and social indicators. The authorities are strongly committed to improve the quality and availability of their database. They rely on technical assistance, including by the Fund, and will receive missions on the Observance of Standards and Codes by FAD planned for February 2002 and STA in September 2001. An April 2001 STA mission discussed the feasibility of establishing a National Statistical Office in order to strengthen the quality of Senegal's statistical database, and recommended strengthening existing work conditions and procedures before undertaking this statistical reorganization.

Real sector

The national accounts data suffer from serious deficiencies in their compilation and projections. Preliminary data are often subject to substantial revisions. In addition, there are some methodological difficulties in the treatment of indicators of the trend growth in value added in some sectors. The industrial production index is based on a highly outdated sample, and developments in the tertiary sector, which represents about 60 percent of total value added, are difficult to monitor. Nevertheless, some progress has been achieved to strengthen the data collection procedures, including an improved enterprise response rate to the business survey.

The Directorate of Forecasting and Statistics (DPS) received the visit of a STA mission in April 2001 to assess its institutional and organizational capacity. The mission highlighted recent improvement in the organization of the directorate and praised the quality of the staff. The mission also recommended increasing the financial resources of the DPS because the tight budget hampered the quality of data collection and processing, a recommendation that was recently put in place by the authorities.

Within the West African Economic and Monetary Union (WAEMU), Senegal has embarked on a regional harmonization process of statistical methodologies. A new harmonized consumer price index was introduced in January 1998. Also, regional efforts on the measurement of informal activities are being undertaken, and a harmonized industrial production index is expected to be developed soon.

Public finances

Government finance statistics (GFS) data are compiled by the Ministry of Finance from the following three sources: the customs, tax, and treasury directorates. The authorities have not reported GFS data to STA for many years; however, data were recently submitted for publication in the 2001 *Government Finance Statistics Yearbook* and are under review by STA. In part to improve its GFS, Senegal started implementing recommendations made by a May 2000 FAD mission to correct a reported deterioration in the Treasury accounts, as well as to integrate special accounts. Such groundwork might be instrumental for enhancing the compilation of "harmonized summary table of fiscal operations" (TOFE). To this effect, additional work will be needed on budget classifications along the line of the WAEMU directives, which the government has targeted for 2002. Some of these issues may be addressed in the context of the forthcoming data ROSC mission.

Monetary data

Monetary data for Senegal are prepared by the national agency of the Central Bank of West African States (BCEAO). There has been an improvement in the timeliness of data provided on interest rates, monetary institutions, and deposit money banks. The authorities are now reporting monetary data to STA on a regular basis with a reduction in the lag from about six months to two-three months. Most of the monetary statistical issues have been resolved.

A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed outstanding methodological issues that concern all the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual* and discussed the modalities for introducing an *International Finance Statistics* (*IFS*) area-wide page for the WAEMU zone in early 2002.

Balance of payments data

Balance of payments data for Senegal are compiled by the national agency of the BCEAO. A long-term technical assistant from STA was posted at BCEAO headquarters to provide technical assistance to all BCEAO member countries (the posting ended in July 1999). With his support, several actions were undertaken in recent years to tackle balance of payments deficiencies: (i) a methodology was adapted to integrate the new norms defined by the fifth edition of the *Balance of Payments Manual*; (ii) surveys sent to companies and banks were modified and simplified; (iii) the computerization of procedures was improved; and (iv) the training of staff was significantly strengthened. The definitive balance of payments is provided with a delay of less than one year. Despite these improvements, some further efforts will be necessary in order to enhance the quality and the coverage of data.

Senegal: Core Statistical Indicators

(As of August 14, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	Current	07/01	05/01	05/01	05/01	07/01	06/01	12/00	2000	06/01	2000	12/00
Date received	Current	08/01	08/01	08/01	08/01	08/01	07/01	04/01	04/01	07/01	06/01	04/01
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Quarterly
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Annually	Monthly	Variable	Variable
Source of update	EIS 1//TRE	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	Ministry of Finance	BCEAO 2/	BCEAO 2/	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On line	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	No	No	3/	3/	3/	3/	3/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Semianually	Annually

1/ Economic Information System, EIS, IMF.
2/ Central Bank of West African States, BCEAO.
3/ Preliminary data for staff use only; actual data unrestricted.

Technical Consultations

A. Report on the Discussions

The authorities broadly shared the assessment of Fund staff as regards the outcome and effectiveness of past technical assistance. Concerning the recent technical assistance in the areas of tax policy, macrofiscal management, budgetary aspects of the petroleum sector, and the institutional arrangement in the area of statistics, they noted that they had appreciated the outcome of these missions. Either a number of recommendations had already been implemented or their implementation was under active consideration. The authorities emphasized that the technical assistance delivered in 1999 for the **introduction of a single-rate value-added tax (VAT)** had proved exceptionally useful in preparing for the rate unification both administratively and in terms of forecasting tax revenues and inflation for different sets of exempt products. In the area of **fiscal management**, treasury balances were now regularly produced and shared with Fund staff, and a number of special accounts had been eliminated with the 2001 budget. The recommendations of the **petroleum sector** mission have been partially implemented with the recent removal of the subsidy on most products. A revision of the official price structure was under discussion with the Ministry of Energy, and some administrative customs procedures had been revised in accordance with the technical assistance report. In the **statistical area**, the Ministry of Finance was studying ways to improve the equipment and remuneration of statisticians. However, the authorities felt that the recommended reactivation of the statistical committee would impose too heavy a structure for the coordination of surveys and preferred to undertake the coordination through a smaller structure.

The authorities did not identify any immediate technical assistance needs. However, they welcomed the planned missions to prepare the report on the observance of standards and codes (ROSC) and suggested that they could receive ROSC missions from FAD in February 2002 and from STA in September 2001. They noted that, based on the outcome of these missions, they might formulate concrete requests in the statistical and public expenditure management domain.

B. Summary of Past Technical Assistance

The **Fiscal Affairs Department** (FAD) sent four technical assistance missions to Senegal, three of which were in the areas of tax policy and administration, and one in the area of macrofiscal projections and treasury accounts. The missions on tax policy and administration laid the grounds for the adoption of the common external tariff (TEC), recommended streamlining exemptions, improving taxpayer identification, and introducing a single rate for the value-added tax, and reviewed budgetary aspects of petroleum sector policies. The mission on macrofiscal projections was especially concerned with the absence of treasury account balances. The Senegalese authorities have implemented many of the recommendations or are expected to implement them soon under the ongoing Fund-supported program. Notable measures include the adoption of the TEC, introduction of a single taxpayer identification number, and major efforts to compute treasury account balances. In the next months, the authorities are expected to reinstate the pass-through mechanism for retail prices of petroleum products and unify the two existing VAT rates. No additional technical assistance has been requested thus far. Technical assistance needs could arise for the streamlining of direct taxes, particularly exemptions, public investment tracking and forecasting, and revenue administration.

The **Monetary and Exchange Department** (MAE) provided technical assistance to the Central Bank of West African States (BCEAO) at the regional level. Assistance focused on banking supervision. The recent mission under the Financial Sector Assessment Program (FSAP) recommended strengthening the legal framework, establishing a deposit insurance system, improving insurance supervision and regulation; it is also recommended that the BCEAO makes more frequent use of open market operations. In some of these areas, as well as on debt management issues, the monetary authorities might request additional technical assistance.

The **Statistics Department** (STA) provided technical assistance on institutional issues, real sector statistics, balance of payments statistics, and money and banking statistics during the last 4 years. Technical assistance on balance of payments was provided through a long-term advisor at the request of the BCEAO to assist member countries in preparing the balance of payments in accordance with the fifth edition of the *Balance of Payments Manual*. The results were generally satisfactory, but an April 2000 follow-up mission found that some areas still needed strengthening. A regional workshop will be organized during 2001 and will assess further progress made by the BCEAO in implementing recommendations.

A real sector mission in 2000 found that Senegal produced various statistics of reasonable quality and the statistics directorate had staff of good quality and equipment in reasonable working conditions. However, the mission noted weaknesses in the coordination of data collection and processing, delays in data dissemination, and lack of human and financial resources. Moreover, some statistics were published with considerable delays. One of the main recommendations was the reactivation of the existing committee of coordination of statistical surveys, which should also formulate a national policy, and the development of new surveys. Some of the findings of the April 2000 were reiterated by an institutional reform mission on the creation of the National Statistical Office in April 2001, which recommended, inter alia, an increase in financial resources for the compilation of statistics.

Money and banking statistics were assessed by an August 1997 mission. Problems in this area concern all BCEAO member states and result from difficulties in sorting banknotes. A mission visited BCEAO headquarters in May 2001, and a second mission is scheduled for fiscal-year 2002.

Senegal is preparing to participate in the General Data Dissemination Standard (GDDS) and is one of the countries scheduled to receive a data mission for the ROSC in September 2001.

Statement by the IMF Staff Representative
September 14, 2001

1. This statement updates information contained in the staff report and the memorandum on economic and financial policies as regards the implementation of prior actions and other policy measures.

2. According to information received from the authorities, the prior actions have been implemented as follows:

- A list of goods of primary necessity to be exempt under the single-rate value-added tax and an estimate of the expected revenue yield in 2002 was submitted to Fund staff on August 27, 2001. The following six categories will be exempt: groundnuts; cereals and manioc; fresh meat; fresh and frozen fish; fresh vegetables; and potatoes, onions, and other tubers and roots.

- The audit report of the postal service was submitted to Fund staff on August 14, 2001.

- The invitation to bid for an audit of SONACOS and SONAGRAINES for the period 1999, 2000, and the first half of 2001 by a firm of international reputation was launched on August 31, 2001.

- The pass-through mechanism for petroleum products was reintroduced on June 29, 2001 and the mechanism was applied on July 20 and August 21.

- The producer price for groundnuts for the 2001/02 agricultural campaign was set at CFAF 120 per kilogram on August 21, 2001 consistent with the *accord cadre* of the groundnut sector, international price developments and SONACOS's financial situation. The producer price has been announced in the press.

- The law implementing a VAT at a single rate of 18 percent was adopted by the national assembly on September 6, 2001. It is expected to be promulgated on September 13, 2001.

3. The national assembly approved a supplementary budget law on September 10, 2001 that is consistent with the financial program. It includes CFAF 105 billion of financial assistance to SENELEC and SONACOS and allocates CFAF 23.4 billion of HIPC Initiative debt relief to priority projects. In particular, the resources received under the HIPC Initiative are allocated as follows:

- 18 percent to **transfer spending** for an incentive payment to health workers (6.5 percent), a one-time transfer for railroad pensioners to IPRES (3.8 percent), and subsidies for small butane gas bottles (7.7 percent).

- **Infrastructure projects** (58.1 percent) for water and sewage (27.3 percent), rural electrification (9.4 percent), roads (15.4 percent), and urban transportation (6 percent).

- **Health** sector capital spending (11.5 percent).

- Capital expenditure on **education** including related programs for women (12.4 percent).

4. The national assembly also approved a new organic budget law on September 10, 2001 to implement the respective WAEMU directive on the harmonization of public finances.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 01/107
FOR IMMEDIATE RELEASE
October 18, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with Senegal

On September 28, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Senegal.[1]

Background

Senegal's economy continued to grow at a solid pace in 2000. Real GDP growth reached an estimated 5.6 percent, driven by strong growth in agricultural output and a buoyant telecommunications sector, and inflation remained low at 0.7 percent. The external current account deficit (excluding official transfers) widened slightly to 8.1 percent of GDP in 2000, following a deterioration in the terms of trade. Money supply grew at a rate of 10.4 percent, significantly faster than nominal GDP growth (6.4 percent). Credit to the economy expanded by more than 28 percent, linked to the financial difficulties of the groundnut and energy sectors. On the fiscal side, the overall deficit narrowed from 3.5 percent of GDP in 1999 to 2 percent of GDP. Revenue performance was strong and Senegal's tax revenue exceeded the regional convergence criterion of 17 percent of GDP. The basic budget surplus, which measures the underlying fiscal policy stance, declined from 1.7 percent of GDP to 1.2 percent of GDP.[2]

Outside the framework of the budget, longstanding structural problems led to a substantial build-up of debt by two public enterprises to local banks and suppliers. The groundnut company (SONACOS) could not reimburse the 1999/2000 crop credit and borrowed an additional 2.7 percent of GDP from local and foreign banks in early 2001. The additional borrowing was in

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the September 28, 2001 Executive Board discussion based on the staff report.

[2] The basic fiscal surplus is defined as the overall fiscal deficit net of grants, foreign-financed capital spending and onlending.

part supported by guarantee deposits, which the government placed in local banks. As a result, the public treasury faced a tight liquidity situation. The financial situation of the national power company (SENELEC) worsened after the government decided to repurchase the shares from a private strategic investor in 2000 and its credit lines were reduced. The company has accumulated a substantial amount of arrears over the past 9 months with adverse financial repercussions for petroleum suppliers and the local refinery. Under the PRGF-supported program, the government is committed to taking actions to resolve the debt problems of the two public enterprises, notably through the privatization of SENELEC by the end of the year, withdrawal of SONAGRAINES from the collection and transport of groundnuts before the next groundnut campaign, and privatization of SONACOS shortly after the 2002/03 campaign.

As regards structural reforms, the government implemented the VAT at the single rate of 18 percent and reintroduced the pass-through mechanism for the retail prices of petroleum products. The government also strengthened tax administration with the introduction of a single taxpayer identification number and a large-taxpayer unit. It pursued the liberalization of the petroleum sector with the removal of the surtax on imported petroleum products. A reform law on the national retirement fund will be submitted to parliament by the end of this year.

The government intends to finalize a Poverty Reduction Strategy Paper (PRSP) by the end of 2001. A participatory process was launched in June 2001, and regional consultations as well as thematic groups have been set up to ensure broad participation of civil society and donors. A household survey is under way to sharpen understanding of Senegal's poverty profile. The complete results of the survey will be integrated into the first annual update of the poverty reduction strategy paper in 2002.

Executive Board Assessment

Directors welcomed the sustained growth performance with low inflation and the expected narrowing of the external current account deficit. Directors noted that the authorities had generally maintained an appropriate budgetary stance over the past year despite the spending pressures that arose in the run-up to the legislative elections. They were encouraged by the government's recent decisions to introduce a single-rate value-added tax and to activate the pass-through mechanism for retail prices of petroleum products. Directors regretted, however, that rising imbalances had adversely affected the operations of key public enterprises and that widespread poverty persisted in spite of high GDP growth.

Directors considered that the long-standing structural problems of the groundnut sector, the electricity company, and the postal service are in large part the causes of the recent difficulties in these public enterprises. They regretted the long delays in undertaking needed structural reforms in these sectors, and while acknowledging the authorities' efforts to address the financial difficulties of these sectors, many Directors expressed concern that these will entail a substantial widening of the fiscal deficit in 2001.

Directors cautioned that the government's decision to assist in the financing of the public enterprise deficits by placing guarantee deposits in local banks is distorting economic incentives and is weakening both government finances and bank portfolios. Noting with concern the decision to keep electricity tariffs unchanged in 2001, they underscored the importance of adjusting tariffs in line with the regulatory formula in order to attract foreign investments that could help to improve the cost structure of the electricity company and end the supply bottlenecks.

Against this backdrop, Directors urged the authorities to address the economy's continuing fragility by implementing, with urgency, structural reforms that contribute to establishing a sound basis for sustainable growth. They particularly stressed the need to limit the government's involvement in the groundnut sector, to allow local prices for inputs and groundnuts to vary with domestic and international market conditions, and to privatize the electricity sector. Directors emphasized that the authorities should adhere to their privatization programs for both sectors without further slippages.

Directors urged the authorities to use the ongoing participatory Poverty Reduction Strategy Paper (PRSP) process to develop a framework for pro-poor and stable growth. In this context, they highlighted the need to better target government spending on priority areas and to improve the tracking of poverty-related expenditures, especially in light of the additional resources made available under the enhanced Initiative for Heavily Indebted Poor Countries. Directors also underlined the need for appropriate safety nets to mitigate the impact on the poor of the reform of the electricity and groundnut sectors.

Directors noted that Senegal's competitiveness continues to be strong. They welcomed the prudent monetary policy conducted at the regional level and the authorities' intention to eliminate government recourse to their statutory advances by meeting domestic financing needs through the issuance of treasury bills. Directors also commended the authorities' overall satisfactory performance under the convergence pact of the West African Economic and Monetary Union (WAEMU), and encouraged them to continue to implement sound policies to achieve WAEMU convergence criteria. They endorsed the findings of the Financial System Stability Assessment (FSSA). While Directors were encouraged by the generally healthy state of the Senegalese financial system and the low risk for a systemic crisis, they urged the authorities to implement the recommendations of the FSSA, notably to strengthen the judicial framework, reduce risk concentration of bank portfolios, and strengthen the oversight of the insurance and microfinance sectors.

Directors stressed the need for additional efforts to improve the transparency of treasury operations, including transactions with the postal service, and to strengthen public expenditure management systems. In this regard, they welcomed the authorities' willingness to participate in the preparation of a Report on the Observance of Standards and Codes (ROSC) module for fiscal operations and for statistical data, respectively. In the interim, although the quality and provision of data are adequate for surveillance and program monitoring, Directors encouraged the authorities to improve further the timeliness and accuracy of macroeconomic and poverty data.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Senegal: Selected Economic Indicators, 1997-2000

	1997	1998	1999	2000
Domestic economy	Annual percentage change			
Real GDP	5.0	5.7	5.1	5.6
GDP deflator	2.4	1.7	1.5	0.8
Consumer prices (annual average)	1.8	1.1	0.8	0.7
	In percent of GDP			
Gross fixed investment	15.8	17.6	19.4	19.1
Gross domestic savings	9.2	10.5	11.8	10.1
Gross national savings	11.6	12.9	13.2	12.6
External economy	In millions of U.S. dollars[1]			
Exports, f.o.b.	904.5	973.4	1028.4	959.2
Imports, f.o.b.	-1175.9	-1287.8	-1374.7	-1342.4
Current account deficit (excluding current official transfers)	-328.5	-351.7	-369.0	-350.8
Capital account	96.1	111.1	97.6	74.5
Overall balance	108.3	65.7	85.5	-26.0
Current account deficit (in percent of GDP)	-4.2	-4.6	-6.1	-6.5
External debt (in percent of GDP)	77.1	77.1	74.6	78.6
Real effective exchange rate (percent change)[2]	-3.7	2.2	-2.4	-6.5
Financial variables	In percent of GDP[1]			
Government revenue (excluding grants)	16.9	16.8	17.3	18.1
Total expenditure	18.9	20.1	20.8	20.1
Overall fiscal deficit (on a commitment basis and excluding grants)	-2.0	-3.3	-3.5	-2.0
Basic fiscal balance	2.7	2.6	1.7	1.2
Change in broad money (in percent)	7.3	8.6	13.3	10.7
Change in credit to the economy (in percent)	13.7	11.2	10.4	28.6

Sources: Senegalese authorities; and IMF staff estimates and projections.

[1]Unless otherwise specified.
[2]A minus sign indicates a depreciation of the CFA franc.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/97
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October 1, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Completes Review Under Senegal's PRGF Arrangement and Approves US12 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has on September 28, 2001 completed the first review of Senegal's third annual arrangement under the Poverty Reduction and Growth Facility (PRGF)[1]. As a result, Senegal will be able to draw up to SDR 9.00 million (about US$12 million) under the arrangement immediately.

Senegal's three-year PRGF arrangement was approved on April 20, 1998 (see Press Release 99/29), for SDR 107 million (about US138 million). So far, Senegal has drawn SDR 78.47 million (about US$101 million) under the arrangement.

[1] On November 22, 1999, the IMF's facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Senegalese government is maintaining its goal of preparing a full PRSP by end-2001 to enable it to reach the completion point under the Enhanced Heavily indebted Poor Countries (HIPC) Initiative. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½ grace period on principal payments.

After the Executive Board's discussion on Senegal, Eduardo Aninat, Deputy Managing Director, and Acting Chairman, made the following statement:

"The Senegalese economy continues to grow at a solid pace, while inflation remains low and external competitiveness is strong.

"The Fund commends the government's satisfactory macroeconomic performance and welcomes the recent introduction of a single-rate value-added tax. It will, however, be crucial to address without delay the financial imbalances that have built up in the groundnut and electricity sectors in order to ensure macroeconomic stability and sustained growth in the medium term.

"The Fund looks forward to the implementation of strong structural measures, in cooperation with other development partners, to address the longstanding problems in these sectors. Specifically, in the coming months the public groundnut company will withdraw progressively from the collection of groundnuts and the distribution of seeds and fertilizers. The government also intends to privatize the public electricity company before the end of the year.

"Regarding other structural reforms, the government will address the deficits of the civil service pension system through a revision of the pension law by the end of this year, and it is expected to take all necessary steps to reduce the deficit of the postal service.

"Senegal faces the challenge of achieving sustained economic growth and of ensuring that it leads to lasting and broad-based poverty reduction. The Fund welcomes the participatory process through which the authorities are preparing a poverty reduction strategy paper (PRSP), and progress in updating poverty data should create a firm basis for a strategy that is effectively targeted at improving conditions for the poor. The completion of a sound PRSP with participation of civil society, combined with the maintenance of macroeconomic stability, progress in the government's privatization program, and an increase in primary education spending will lay the foundation for Senegal moving toward the completion point under the enhanced Initiative for Heavily Indebted Poor Countries in 2002," Mr. Aninat said.