January 2010
IMF Country Report No. 10/13

Senegal: Fourth Review Under the Policy Support Instrument and Second Review Under the Exogenous Shocks Facility—Staff Report; Press Release

In the context of the Fourth Review Under the Policy Support Instrument and Second Review Under the Exogenous Shocks Facility, with Senegal, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Policy Support Instrument and Second Review and Augmentation of Access Under the Exogenous Shocks Facility Arrangement, prepared by a staff team of the IMF, following discussions that ended on November 19, 2009, with officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 7, 2009. 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 Press Release on the completion of the reviews.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Senegal*
Memorandum of Economic and Financial Policies by the authorities of Senegal*
Technical Memorandum of Understanding*
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SENEGAL

Fourth Review Under the Policy Support Instrument and Second Review Under the Exogenous Shocks Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Roger Nord and Dominique Desruelles

December 7, 2009

PSI/ESF Reviews. Staff recommends their completion. All quantitative assessment/performance criteria have been met and most structural conditionality has been observed.

Program Discussions. Held in Dakar November 4–18, 2009. The team comprised Mr. Funke (head), Mr. Lakwijk, Mr. Gitton (all AFR), Ms. Sancak (FAD), Mr. Painchaud (SPR), and Ms. Fichera (resident representative). Mr. Dieng (EXR) also joined the mission. The team met with Finance Minister Diop, Budget Minister Diop, Agriculture Minister Sarr, Energy Minister Sarr, International Cooperation and Infrastructure Minister Wade, BCEAO National Director Diop, other senior government officials, and representatives of development partners and the private sector.

Outreach and seminars: Mr. Nord (AFR) joined the mission at the beginning for outreach related to the *Regional Economic Outlook: Sub-Saharan Africa*. The mission also met with representatives of trade unions and civil society. In two half-day seminars the authorities presented the findings of their studies on tax expenditure and the economic outlook, including the impact of the global financial crisis. The team made presentations on (i) changes in the Fund's financial architecture for low-income countries; (ii) changes in the low-income country debt sustainability framework and debt limits in Fund-supported programs, (iii) vulnerabilities of the Senegalese banking system; and (iv) the impact of cyclical fluctuations on government revenues.

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Executive Summary

Although the global financial crisis is having a marked impact on the Senegalese economy, program implementation has been satisfactory.

Economic developments: Real GDP growth is expected to slow to 1¼ percent in 2009. The economic rebound in 2010 is projected to be gradual, tracking the global recovery, provided domestic reform momentum does not slip. Inflation is expected to be about 2 percent. Risks to the economic outlook are still high.

Program performance: All quantitative assessment (performance) criteria were met, notably the targets for the fiscal deficit and the budgetary float. Fiscal policy was tighter during the first half of 2009 than foreseen in the program due to delays in financing. Structural reforms are broadly on track.

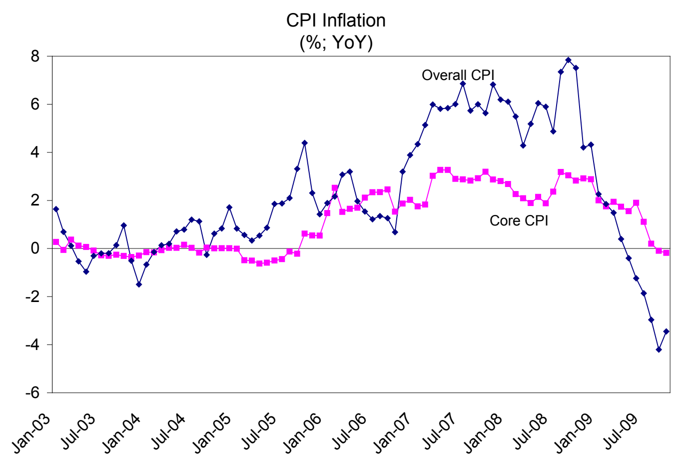
Priorities: Authorities and staff agreed that the priorities are to (i) use macroeconomic and structural policies to weather the impact of the global economic crisis, including shifting the fiscal stimulus to late 2009 and into 2010; (ii) finish normalizing the government's financial relations with the private sector by regularizing extrabudgetary spending and paying public agency debt; (iii) continue to pursue structural reforms in public financial management (PFM) to enhance governance, transparency, and accountability; and (iv) press ahead with other growth-enhancing reforms, especially in the energy sector, in close collaboration with development partners.

Risks: The main risks relate to (i) the possibility that the international crisis will have a more enduring impact on growth; (ii) uncertainty about the available financing, which could lead to difficult trade-offs in prioritizing expenditure, and (iii) incomplete reform of the energy sector. Recurring governance and transparency issues could also affect the program, and ultimately economic growth.

I. Recent Economic Developments, Short-term Outlook, and Program Performance

1. **Structural challenges and the marked impact of the global financial crisis on the Senegalese economy are more than offsetting the positive impact of the reversal of last year's external and domestic shocks** from higher food and fuel prices and rising payment delays. The international crisis is being transmitted mainly through drops in export prices, and downward pressure on remittances, foreign direct investment, and tourism. As a result:

- Real GDP growth is expected to slow to 1¼ percent in 2009 from an already depressed 2½ percent in 2008 (Figure 1). While the agricultural sector benefited from supportive policies and favorable weather during much of the year, most of the industrial and tertiary sectors suffered from depressed demand at home and abroad.[1] Electricity shortages and urban flooding also caused economic problems in the second half.



- Annual inflation turned negative in May, largely because food and energy prices fell. Core inflation has fallen less.

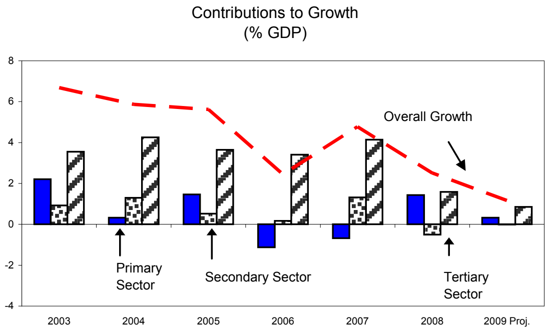
2. **Despite difficult economic conditions, program implementation has been broadly satisfactory**. All quantitative assessment criteria have been met, and good progress has been made with structural reforms. Faced with shortfalls in revenues and in financing (e.g., no privatization receipts and less bank financing with SONATEL shares as collateral), the authorities pulled back on spending. The end-June fiscal deficit target was met by a wide margin, and the budgetary float was below its ceiling (Box 1).

MEFP ¶ 4

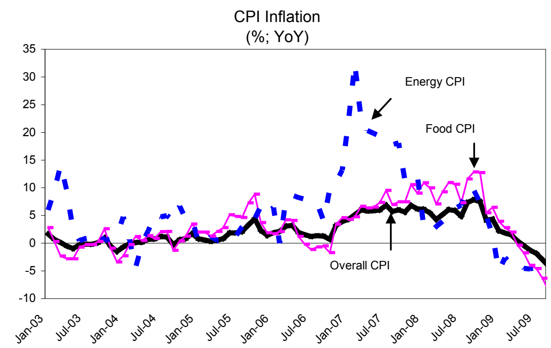
[1] However, *Industries Chimiques du Sénégal* (ICS), Senegal's largest company, which mainly produces phosphoric acid (a fertilizer input), began to recover in 2009.

Figure 1. Senegal: Recent Macroeconomic Developments, 2003–09

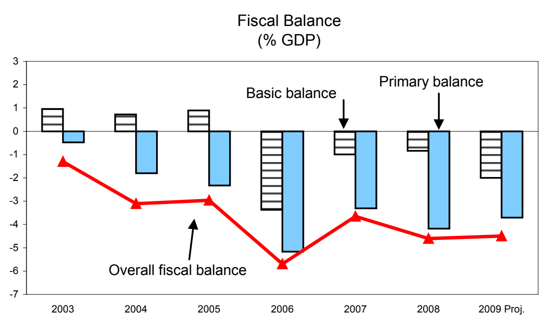
Senegal's economic growth slowed further in 2009 despite progress with the settlement of government payment delays as the world economic crisis hit home.



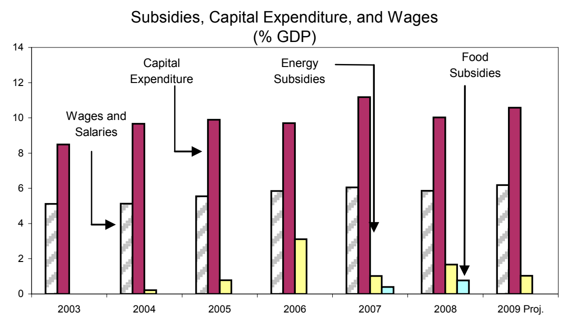
Inflation has been relatively high for 2 years but eased rapidly as food and energy prices declined.



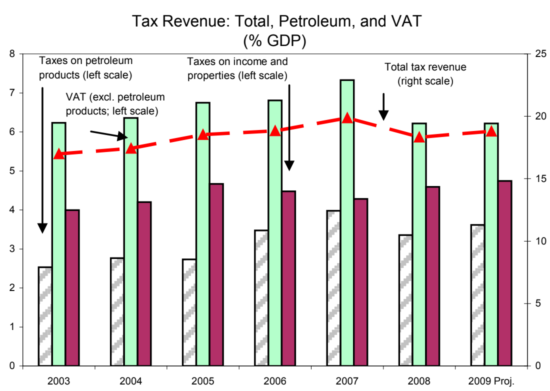
The fiscal deficit is well contained in 2009…



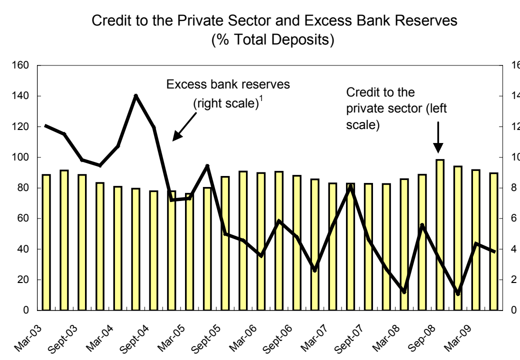
… as spending is restrained…



….with tax collection below previous peaks.



Large government borrowing in the WAEMU zone, including by Senegal, has reduced excess bank reserves.



Sources: BCEAO; and IMF staff estimates.

[1] Difference between actual and required reserves, which are a percentage of deposits, short-term credit, and gross foreign claims.

Box 1. Government Payment Delays, Extrabudgetary Spending, and Agency Debt

Settlement has progressed and the stock of unpaid bills within the expenditure chain (the budgetary float) was normalized, having been reduced from CFAF 175 billion (3 percent of GDP) in October 2008 to below CFAF 45 billion (⅔ percent of GDP) in September (Table 7).[1]

Still to be done is settling extrabudgetary spending and agency debt:

- The audit completed in July 2009 identified extrabudgetary spending of CFAF 37 billion (0.6 percent of GDP).[2]
- The audit also revealed that public agencies owed the private sector CFAF 67 billion (1 percent of GDP). Additionally, blocked treasury accounts of nonfinancial public agencies are estimated at about CFAF 15 billion (¼ percent of GDP).

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[1] See Box 1 of the last Staff Report (Country Report No. 09/205, 6/8/2009) for previous developments.

[2] This is less than initially estimated because the audit did not consider agency debt that has been contracted following normal budgetary procedures to be extrabudgetary.

MEFP ¶ 5

3. **Structural reforms were broadly on track in 2009** (Text Table). In particular, a study on the composition and level of current tax expenditures, which identified tax expenditures of over 3 percent of GDP, provides a solid basis for further analysis of how to protect government revenues and increase the fairness, performance, and integrity of the tax system. The recommendations of a technical audit and a technical assistance mission provide a good basis for improving the efficiency, reliability, and coverage of the budget monitoring system (SIGFIP). While the authorities are committed to settling extrabudgetary spending and paying agency debt, they are still finalizing the modalities. Progress with a budget accounting module has been slower than expected due to technical challenges, but budget flexibility and presentation have been improved. The authorities are committed to advance in these areas.

Structural Benchmarks, June 2009–December 2009 [2]

Policy Measures	Target Date for Implementation	Status
1. Decide whether extrabudgetary expenditure should be (i) proposed to Parliament for regularization in the 2010 budget; or (ii) rejected as invalid claims that will not be paid (see MEFP, ¶ 19).	July 31, 2009	Partially met
2. Complete a study on the basis for, and current level of, tax expenditures (see MEFP, ¶ 21).	September 30, 2009	Met
3. Complete an external audit of SIGFIP focused on the budget execution database and production of output tables (see MEFP, ¶ 17).	September 30, 2009	Met
4. Improve the flexibility and presentation of the budget (see MEFP, ¶ 16).	October 15, 2009	Partially met
5. Make the ASTER budget accounting module operational (see MEFP, ¶ 18).	October 31, 2009	In progress
6. Adopt provisions to transfer petroleum tax collection (FSAPP, Fonds de sécurisation des importations en produits pétroliers) to the DGID (see MEFP, ¶ 22).	October 31, 2009	Met

Sources: MEFP (June 2009) and staff assessment.

[2] In addition, two structural benchmarks that were under way at the time of the Third PSI Review (an external audit of extrabudgetary commitments and a public procurement audit) have been completed.

II. Recovering from the Global Financial Crisis

4. **The economic rebound in 2010 is projected to be hesitant and gradual** but somewhat more synchronized with global developments than during previous global downturns (Figure 2). The combined impact of the domestic and external shocks is somewhat stronger with regard to growth and the fiscal deficit than projected at the last review, but somewhat weaker with regard to the external sector.

- An **economic growth** rate of about 3½ percent should be possible in 2010 based on the projected recovery in the world economy, stabilization of remittances, settlement of extrabudgetary spending, and payment of agency debt. However, in 2010 growth in Senegal would still be weaker than in other WAEMU countries (Figure 3). Higher growth is necessary to make a significant dent in poverty. Over the medium term, broad-based structural reforms are needed to boost growth to above 5 percent (Figure 4).

- **Inflation** is likely to return to the historical level of about 2 percent over the medium term as the effects of commodity price changes wane.

- The **external current account deficit** (including grants) is projected to stabilize over the medium term at under 10 percent of GDP. The narrowing of the current account deficit in 2009 is due primarily to reduced imports related to subdued growth and lower food and fuel prices. The overall balance of payments is projected to be in deficit in 2009 (excluding the SDR inflow above the line) and in 2010, and to show small surpluses over the medium term.

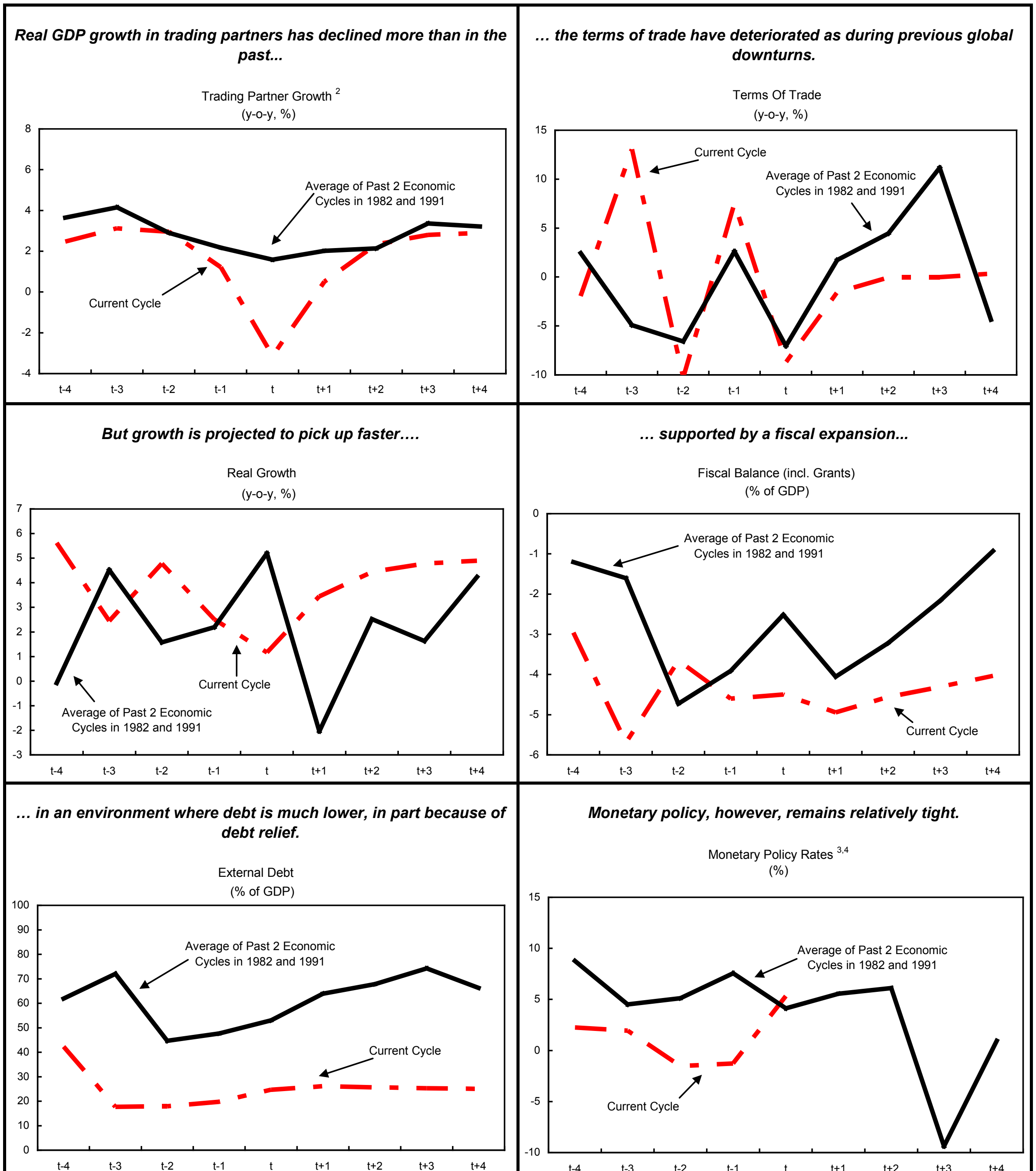
Selected Indicators, 2009-10

			Change relative to previous review	
	2009	2010	2009	2010
	(Annual percentage change)			
GDP growth	1.2	3.4	-2.0	0.0
Consumer prices	-0.8	1.8	-1.6	-0.4
	(Percent of GDP)			
Overall fiscal balance	-4.5	-4.9	0.1	-1.0
	(CFAF billions)			
Current account	-573	-626	169	92
Capital and financial account	620	544	-65	-70
Of which: SDR allocation	94	0	94	0
Overall balance of payments	48	-82	104	22
Overall balance of payments, excluding SDR allocation	-47	-82	10	22

Sources: Tables 1 and 2; and Staff Report for 3rd PSI Review (6/8/09).

5. **There is still substantial uncertainty about the economic outlook.** External risks include a slower than expected global recovery and the possibility that the full impact of the global crisis may be delayed and prolonged. Risks to growth prospects could also be presented by financing constraints, e.g., in the regional market, that may limit the support fiscal policy can provide to the economy, delays in settling agency debt and extrabudgetary spending, and deepening challenges in the energy sector. Longstanding risks like weather and

Figure 2. Senegal: Comparing Macroeconomic Developments During Global Economic Downturns[1]



Sources: IMF International Notice System; World Economic Outlook and African Department databases; and BCEAO.

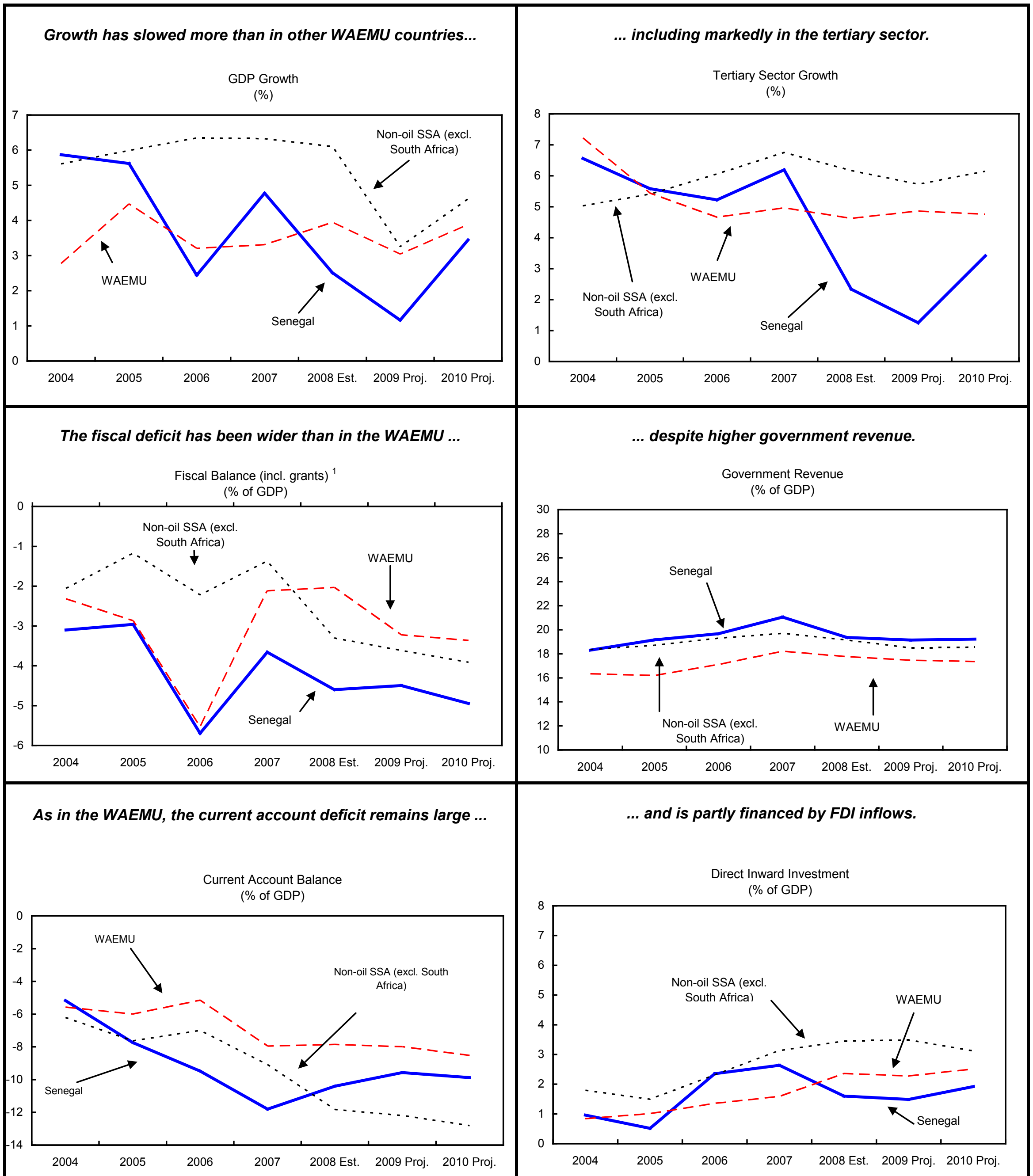
[1] Comparison of current cycle with the average of the two previous global cycles in 1982 and 1991. The year t represents the year of the global trough. For the current cycle, t + 1 through t + 4 are projections.

[2] Main (export) trading partners are: France, United States, Germany, Japan, Italy, Netherlands, Belgium, United Kingdom, Spain, India, Brazil, Canada, China, Cote d'Ivoire, Denmark, South Korea, Australia and Malaysia.

[3] Data available through October 2009. The decline in t + 3 reflects the devaluation of the CFAF in 1994.

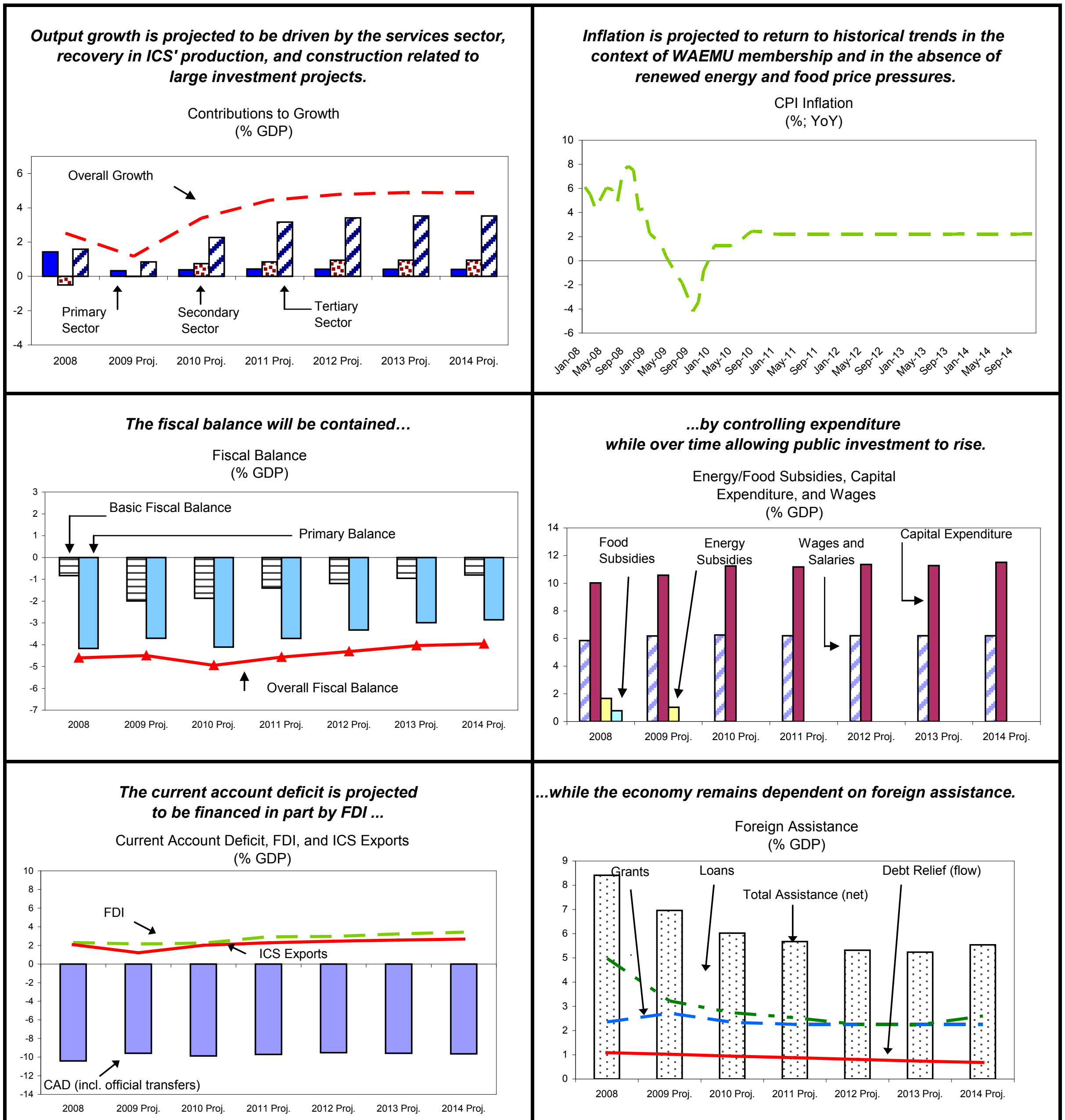
[4] The policy rate is the real normal discount rate (1978 - 1989), discount rate (1990 - 1993), and refinancing rate (1994 - present).

Figure 3. Senegal, WAEMU, and SSA: Macroeconomic Developments and Outlook, 2004–10



Sources: WEO; and IMF staff estimates.
[1] For 2006, fiscal balance excluding grants for WAEMU and non-oil SSA to eliminate effect of MDRI relief.

Figure 4. Senegal: Medium-Term Outlook, 2008–14



Sources: BCEAO; and IMF staff estimates.

pests could affect the economy, as could commodity price shocks. Also, recurring governance and transparency concerns constitute risks to the program—and ultimately economic growth.

III. Economic and Structural Policies

A. Overview

6. **Policy discussions focused on how to return quickly to higher growth and to sustain reform momentum.** Key issues are:

a. The scope and financing for countercyclical policies to mitigate the impact of the global financial crisis;

b. Full normalization of the government's financial relations with the private sector; and

c. Structural reforms, in PFM and other areas, especially to make the energy sector more efficient and the financial sector stronger.

B. Macroeconomic Policies

7. **In the year remaining until the PSI** (Text Table) **ends, the program is dedicated to helping Senegal surmount the impact of the global economic crisis and normalize the government's financial relations with the private sector.**[3] Given the continued economic weakness and some new financing, staff supports a moderate fiscal stimulus in late 2009 and 2010. The program's structural conditionality covers, among other areas, regularization of extrabudgetary spending and payment of agency debt and further PFM reforms to help shore up revenues and prevent a recurrence of payment delays.

The PSI Program's Four Pillars

Containing the *fiscal deficit* to underpin macroeconomic stability and safeguard debt sustainability.
Improving *fiscal governance and transparency* so as to enhance policy credibility and sustain external assistance.
Encouraging *private sector activity* by improving the business environment and addressing structural impediments to higher economic growth.
Limiting *financial sector vulnerabilities* and raising the sector's contribution to the economy.

[3] The PSI expires on November 1, 2010.

C. Scope for Easing Fiscal Policy

MEFP ¶ 8

8. **Fiscal policy in the first half of 2009 has been tighter than programmed, but financing available in the second half is expected to create room to reach the programmed level of spending.** Earlier in the year, spending was constrained by delays in mobilizing financing and tight controls to avoid recurrence of payment delays. Strong revenue administration efforts are helping to stabilize tax revenues as a share of GDP. The ten-year CFAF loan from the BCEAO (equal to the SDR allocation) has helped to offset other financing shortfalls.[4] Staff underscored the need to better manage liquidity.

MEFP ¶ 9

9. **The 2010 budget aims to strike a balance between resource constraints, investment needs, and protecting priority spending.** The

Fiscal Developments, 2008–10

	2008	2009		2010	
	Est.	Prog.	Proj.	Proj.	Suppl. budget [1]
	(Percent of GDP)				
Total revenue and grants	21.8	21.6	22.1	21.9	21.9
Of which : Tax revenue	18.3	18.7	18.8	18.9	18.9
Total expenditure and net lending	26.6	26.3	26.6	26.9	27.6
Of which : Settlement of extra-budgetary spending and agency debt	--	--	--	--	0.8 [1]
Current expenditure	16.5	15.8	16.0	15.6	…
Capital expenditure	10.0	10.4	10.6	11.2	…
Overall fiscal balance[2]	-4.6	-4.6	-4.5	-4.9	-5.7
Memorandum items:					
Settlement of payment delays[3]	1.4	1.1	1.1	1.3	1.3
Above-the-line settlement	--	--	--	--	0.8 [1]
Below-the-line settlement	1.4	1.1	1.1	1.3 [4]	0.6 [1]
SDR allocation	--	--	1.4	--	--

[1] Illustrative outcome (70 percent of extrabudgetary commitments and agency debt settled).

[2] Includes selected public sector entities balance.

[3] Within the expenditure chain in 2008-09; extrabudgetary spending and agency debt in 2010.

[4] Payments for extrabudgetary spending and agency debt included below the line pending finalization of modalities and amounts.

[4] The terms are identical to those of the other WAEMU countries (maturity of 10 years, three-year grace period, and interest rate of 3 percent). Part of the proceeds were used to repay an earlier bank loan to address payment delays.

staff's cautious macroeconomic assumptions suggest the deficit will reach about 5 percent of GDP (excluding settlement of extrabudgetary expenditure and payment of agency debt). While the authorities reiterated their commitment to a fiscal policy that would keep debt sustainable over the medium term, moderate short-run fiscal expansion in late 2009 and 2010 could support aggregate demand, as growth is still sluggish. A temporary increase in the deficit would not jeopardize Senegal's hard-won gains in debt sustainability.[5] Social expenditure is expected to increase, though somewhat below PRSP objectives.

MEFP ¶ 10, 11

10. **Authorities and staff agreed that complete and transparent settlement of extrabudgetary spending and payment of agency debt is critical to fully restore private sector confidence and improve the business environment.**[6] The authorities intend to (i) announce their strategy by end-January 2010 (structural benchmark); (ii) submit to parliament a corresponding supplementary budget by mid-May (structural benchmark); and (iii) pay at least 50 percent of extrabudgetary expenditure to be settled and agency debt by end-September 2010 (structural benchmark). If sufficient financing is available, the remainder will also be settled in 2010 but no later than in 2011. Staff stressed that expeditious clearing, supported by improved resource management, would also be advisable from a macroeconomic policy stance because the associated liquidity injection would support aggregate demand. Given the sluggish economic outlook and likely lower multipliers than with new expenditure, the risk of overheating would be limited. To the extent that financing constraints persist, some expenditure re-orientation may be necessary.

D. Deepening PFM Structural Reforms

MEFP ¶14-19

11. **Reforms in PFM and accountability are still at the heart of the authorities' program** (Text Table). The current reform agenda, which aims to improve budget and treasury execution and transparency, specifies the following structural benchmarks:

- A timely end to the issuance of payment orders for the 2009 budget year to help prevent recurrence of payment delays.

- Better budget execution and accounting systems.

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[5] See *Joint IMF/IDA Debt Sustainability Analysis* (Country Report No. 09/205, Supplement 1).

[6] Settlement of extrabudgetary spending and most agency debt will amount to new budgetary spending. However, to the extent that agencies have incurred debt because their treasury accounts were blocked, settlement requires only below-the-line financing. Pending finalization of modalities and amounts, all payments for extrabudgetary spending and agency debt are for the time being recorded below the line, 70 percent in 2010 and 30 percent in 2011 (Tables 3 and 4).

Structural Benchmarks, 2009–10

Policy Measures	MEFP §	Implementation date	Macroeconomic Rationale
For the Fifth PSI Review			
1. Stop issuing 2009 payment orders.	15	December 31, 2009	Improve transparency of budget execution and prevent recurrence of past budgetary slippages.
2. Issue a press release summarizing the results of the audit of extrabudgetary commitments and agency debt, the government's strategy for settling payments in the first supplementary budget of 2010 submitted to the parliament no later than May 15, 2010, and describing the settlement procedures.	10	January 31, 2010	Continue the normalization of financial relations with the private sector in a transparent manner.
3. Draw up an action plan to suppress tax expenditures with a significant budgetary impact that are ineffective and/or inefficient, with the aim of incorporating the first changes in the 2011 budget.	21	March 31, 2010	Enhance the transparency of the tax system and increase revenues.
4. Prepare a consolidated action plan to implement the FSAP recommendations.	27	March 31, 2010	Reduce the vulnerability and strengthen the development of the financial sector.
5. Submit to the parliament a draft supplementary budget for 2010 that includes specific entries/ items authorizing the Ministry of Finance to settle in 2010 the extrabudgetary arrears and agency debt identified in the July 2009 audit that have not yet been included in a budget. Any debt settlement not requiring a budget entry will be presented in an annex.	10	May 15, 2010	Help normalize financial relations with the private sector.
For the Sixth PSI Review			
1. Improve SIGFIP by including payroll expenditure and implementing the SIGFIP-ASTER interface.	17	July 31, 2010	Strengthen monitoring of budget execution.
2. Conduct a census of all the accounts held by general government institutions, and include for each account the number, name of the holder, and the balance as of December 31, 2008 and 2009, with a view to adopting a strategy to establish a single Treasury account.	19	July 31, 2010	Improve cash management and transparency of operations.
3. Complete payment of at least 50 percent of extrabudgetary commitments and public institution and agency debt identified in the July 2009 audit according to the modalities of the strategy announced by the government in January.	10	September 30, 2010	Help normalize financial relations with the private sector and enhance the business climate.
4. Include in a single document the general tax code and all legislation governing domestic taxation.	21	October 15, 2010	Simplify the tax system and make it more transparent.

- Movement toward a single treasury account to improve cash management and make operations more transparent.

MEFP ¶20-21

12. **The authorities are also reinforcing tax administration and following up on the findings of their recent tax expenditure study.** The study will be extended and an action plan will be prepared with a view to rationalizing some tax expenditures (structural benchmark). Making substantial progress in this area would lay the basis for higher revenues and additional fiscal space for priority spending.

E. Growth-Enhancing Structural Reforms

MEFP ¶22- 26

13. **Despite continuing reforms in the energy sector—critical to raising Senegal's growth potential—the challenges are still significant** (Box 2). A comprehensive reform plan for the energy sector will need to be carried out to limit fiscal costs and contain economic risks. The electricity company SENELEC will need to be made financially sound on a permanent basis to ensure adequate electricity distribution. In collaboration with donors, the authorities are working out the details of a course of action that will require forceful measures from all actors, including implementing commitments to strengthen SENELEC, tariff adjustments, restructuring debt, and also financial support. Delays in comprehensive reforms would lead to risks for growth and future fiscal claims.

Box 2. Energy Sector Reform

A World Bank and Agence Française de Développement (AFD) emergency stock-taking mission in September 2009 identified several reasons for the energy sector's current difficulties: technical failures leading to higher production costs, an inadequate tariff structure, insufficient marketing and operational performance, constraints in fuel supply, delays in energy-saving measures, large arrears (CFAF 70 billion, more than 1 percent of GDP, as of September 2009, more than half of which are back taxes), high debt-servicing costs weighing on cash flow, and weaknesses in internal governance.

The authorities are finalizing reforms in cooperation with the World Bank and the AFD. The strategy will involve a number of measures, such as debt restructuring, audits, restoration of the production capacity of an important private supplier of SENELEC (GTI), tariff adjustments to take into account supply and production costs while limiting the impact on the most vulnerable consumers, compliance with Bank and AFD conditionality to allow release of the second tranche of their financial assistance (CFAF 15 billion), and a contribution from the government budget in the form of debt restructuring and a budgetary transfer not received in 2008.

[1] Tariffs were raised by 17 percent in August 2008, lowered by 12 percent in January 2009 (with oil at about US$45 a barrel), and increased again by 8 percent in July 2009.

14. **The direct impact of the global crisis on the banking system has been small because of its limited international integration, but it is affected by the slowdown in domestic growth**. Nonperforming loans have increased, and several banks are not meeting some prudential regulations (see text table with financial soundness indicators). Appropriately, the authorities have stepped up their high-frequency monitoring of financial sector risks. They also intend to take stock of various reform initiatives across different fora in an updated consolidated financial sector action plan (structural benchmark) taking into account progress since the 2004 national FSAP and the 2007 regional FSAP.

MEFP ¶27-28

Financial Soundness Indicators for the Banking Sector, 2002–09
(Percent)

	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Jun.
Capital to risk-weighted assets	16.0	11.7	11.5	10.8	12.9	13.5	13.8	15.5
Loans to 5 largest borrowers to capital	104.9	141.0	131.4	179.9	103.7	88.5	86.9	91.8
Gross NPLs to total loans 1/	18.5	13.3	12.6	11.9	16.8	18.6	19.1	18.0
NPLs net of provisions to total loans 1/	5.5	3.3	3.4	3.2	8.8	8.6	9.3	9.8
NPLs net of provisions to capital 1/	30.7	27.8	25.1	27.2	67.9	60.7	63.9	62.9
Total deposits to total liabilities	78.5	82.0	79.6	78.3	75.8	73.6	70.3	71.2

1/ Changes in 2006 due to ICS. It was recapitalized in 2008 but past provisions remain in place.

15. **Raising Senegal's growth potential requires faster action on the authorities' Accelerated Growth Strategy.** Senegal's ranking in the *Doing Business* indicators has slipped. Priority reforms include reducing the cost of transferring property, more investor protection and better contract enforcement, modernization of labor market legislation, simplification of customs procedures, and creation of credit bureaus. A better business climate will also be conducive to mutually reinforcing benefits of several high-profile investment projects, including the airport, economic zone, and Dakar port.

MEFP ¶29

16. **The authorities expressed their commitment to strengthen governance,** including by publishing budget execution regularly, ensuring that audit and regulatory agencies have adequate financial and human resources to fulfill their responsibilities, and revising the property law.

MEFP ¶15,30

IV. Program Issues and Risks

17. **The authorities welcomed the changes in the Fund's policy on nonconcessional borrowing and expressed interest in making use of its new flexibility.** The authorities requested to raise the ceiling to finance the Dakar-Diamniadio toll highway project by CFAF 10 billion to CFAF 90 billion. The higher ceiling would allow them to accommodate possibly higher costs and issue a bond in international markets of US$200 million, typically seen as a minimum size for this type of transaction. Given Senegal's low risk of debt distress, staff supports this request. The authorities also expressed interest to borrow more externally

on nonconcessional terms with untied limits, especially to finance economically and socially profitable projects.[7] While Senegal is at low risk of debt distress, the CPIA and PEFA indicators point to limited macroeconomic and PFM capacity, based in part on past budgetary slippages. Staff emphasized that reforms should focus on continued progress in PFM and governance, which would augur well for a more favorable assessment of Senegal's capacity in the future. Staff also reiterated that nonconcessional borrowing for Senegal should for the time being stay linked to specific economically profitable projects for which sufficient concessional financing could not be mobilized. Untied limits could become possible after PFM improves.

18. **The definition of the basic fiscal balance in the TMU has been adjusted** to exclude payments linked to settling extrabudgetary spending and agency debt. A yet unknown part of these transactions will need to be recorded above the line.

19. **The program entails risks related to the global financial crisis and delays in implementing domestic reforms:**

- Financing of the deficit could be undermined by liquidity shortages in the regional bond market.
- Delays in regularizing outstanding payments could slow the recovery.
- A slower than expected global recovery, continued problems in the energy sector, or spill-overs from the recent announcement of Dubai World on a possible debt standstill could suppress growth and put pressure on the fiscal target.

V. Staff Appraisal

20. **In difficult economic circumstances, program implementation has been broadly satisfactory.** Faced with shortfalls in financing, the authorities carefully managed spending and also continued their structural reforms—both of which bode well for the future.

21. **Economic developments next year will require continued vigilance.** The outlook is more uncertain than usual, with risks rooted in the pace of the global recovery and domestic governance and transparency problems. Continued forceful implementation of the program will go a long way to lay the groundwork for renewed growth in the next few years.

22. **In coming months Senegal's economic policies should continue to be geared to weathering the impact of the global economic crisis and normalizing the government's financial relations with the private sector.** Given continued economic weakness, shifting a modest fiscal expansion into 2010, in line with the 2010 budget under the staff's

[7] For example, financing for the housing agency, road construction, and flood mitigation.

macroeconomic assumptions, would help support these objectives, while the authorities remain committed to a fiscal policy that preserves medium-term debt sustainability. It will be important to protect emergency and priority spending in the interest of the more vulnerable segments of the population. Better liquidity management is essential to minimize risks that fiscal policy will become procyclical.

23. **Fast settlement of extrabudgetary spending and payment of agency debt is needed to fully normalize relations with the private sector**. It is also critical to maintain the reform momentum in PFM and accountability. This will help prevent a recurrence of payment delays and improve the outcomes of budgetary processes.

24. **Although Senegal is at low risk of debt distress, it needs to reinforce its fiscal management capacity.** Nonconcessional borrowing should for the time being stay linked to specific economically profitable projects for which sufficient concessional financing could not be mobilized. Significant reforms to improve management capacity would pave the way for untied limits in the future.

25. **In the energy sector, which is critical to raising Senegal's growth potential, further deterioration must be avoided.** The authorities should diligently implement a comprehensive strategy and guard against an energy sector drain on the budget, including by improving the efficiency of the sector and adjusting tariffs regularly to keep them aligned with costs.

26. **The financial system has so far coped well with the global financial crisis,** but because vulnerabilities could arise from an increase in nonperforming loans, credit concentration, or a drying-up of liquidity, it will be essential to continually monitor them at both national and regional levels.

Staff recommends completion of the fourth review of the PSI and the second review of the ESF arrangement. Implementation has been generally satisfactory, and major new commitments have been made for the period ahead.

Table 1. Senegal: Selected Economic and Financial Indicators, 2006–14

	2006	2007	2008	2009		2010	2011	2012	2013	2014
			Est.	Prog.	Proj.			Proj.		
	(Annual percentage change)									
National income and prices										
GDP at constant prices	2.4	4.8	2.5	3.1	1.2	3.4	4.4	4.8	4.9	4.9
Of which: nonagriculture GDP	4.0	6.2	1.3	3.1	0.7	3.4	4.5	4.9	5.0	5.0
GDP deflator	4.0	5.5	7.1	2.1	-0.3	2.1	2.1	2.1	2.1	2.1
Consumer prices										
Annual average	2.1	5.9	5.8	0.8	-0.8	1.8	2.2	2.2	2.2	2.2
End of period	3.9	6.2	4.3	2.2	0.1	2.2	2.2	2.2	2.2	2.2
External sector										
Exports, f.o.b. (CFA francs)	0.1	-3.7	14.1	-12.1	-12.6	14.6	6.7	5.5	7.6	7.7
Imports, f.o.b. (CFA francs)	9.6	19.5	7.7	-7.8	-11.9	10.8	8.3	6.4	7.8	7.6
Export volume	-14.1	0.2	-3.8	9.0	6.3	10.5	4.0	4.0	4.6	5.0
Import volume	6.4	11.7	-2.7	2.5	-2.3	5.1	5.5	5.0	5.2	5.2
Terms of trade ("–" = deterioration)	13.0	-10.3	7.5	-11.0	-8.7	-1.6	-0.1	0.0	0.3	0.3
Nominal effective exchange rate	0.2	1.9	3.3	…	…	…	…	…	…	…
Real effective exchange rate	-0.2	5.3	5.3	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	5.0	8.6	6.2	5.1	4.6	13.0	12.9	11.1	10.6	9.6
Domestic credit	5.8	11.5	7.3	5.5	5.1	13.4	13.3	11.5	10.9	9.9
Credit to the government (net)	3.0	4.9	-3.5	-1.6	1.8	8.3	6.4	4.7	3.9	2.7
Credit to the economy (percentage growth)	4.2	10.5	17.2	10.0	4.6	7.5	10.4	10.6	11.2	11.6
	(Percent of GDP, unless otherwise indicated)									
Government financial operations										
Revenue	19.7	21.1	19.4	19.2	19.4	19.6	19.9	20.2	20.3	20.5
Grants	1.5	2.6	2.4	2.4	2.7	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	27.2	27.6	26.6	26.3	26.6	26.9	26.7	26.7	26.6	26.8
Overall fiscal surplus (+) or deficit (–)										
Payment order basis, excluding grants	-7.2	-6.2	-7.0	-7.1	-7.2	-7.3	-6.8	-6.6	-6.3	-6.2
Payment order basis, including grants	-5.7	-3.7	-4.6	-4.6	-4.5	-4.9	-4.6	-4.3	-4.0	-4.0
Primary fiscal balance 1/	-5.2	-3.3	-4.2	-3.7	-3.7	-4.1	-3.7	-3.3	-3.0	-2.9
Basic fiscal balance 2/	-3.4	-1.0	-0.8	-1.9	-2.0	-1.9	-1.4	-1.2	-1.0	-0.8
Gross domestic investment	28.2	32.1	31.5	27.6	29.8	30.9	31.5	32.0	32.4	32.9
Government	9.7	11.2	10.0	10.4	10.6	11.2	11.2	11.4	11.3	11.5
Nongovernment	18.5	21.0	21.5	17.1	19.2	19.6	20.3	20.6	21.1	21.4
Gross domestic savings	10.7	9.8	9.8	7.8	10.6	11.8	12.3	13.0	13.3	13.8
Government	3.4	7.1	5.0	6.3	6.4	7.3	7.6	8.2	8.4	8.8
Nongovernment	7.3	2.6	4.7	1.5	4.3	4.5	4.7	4.8	4.9	5.0
Gross national savings	18.7	20.3	21.1	15.7	20.2	21.0	21.8	22.5	22.8	23.3
External current account deficit (–)										
Including current official transfers	-9.5	-11.8	-10.4	-11.8	-9.6	-9.9	-9.7	-9.5	-9.6	-9.6
Excluding current official transfers	-10.5	-13.2	-11.4	-13.0	-10.9	-10.8	-10.6	-10.4	-10.5	-10.5
Central government domestic debt 3/	4.3	5.6	4.4	3.7	6.1	7.0	9.9	11.7	13.1	13.9
External public debt (nominal) 3/ 4/	17.7	17.9	19.7	23.4	24.7	26.1	25.7	25.3	25.1	25.3
External public debt service 4/										
Percent of exports	4.2	3.4	2.7	4.8	3.9	4.2	7.3	7.0	6.7	5.4
Percent of government revenue	5.4	4.1	3.4	5.2	4.2	4.8	8.2	7.8	7.3	6.0
Gross domestic product (CFAF billions)	4,893	5,408	5,935	6,264	5,983	6,336	6,756	7,230	7,743	8,292

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

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and expenditure financed with HIPC Initiative and MDRI assistance.
3/ Debt outstanding at year-end.
4/ After HIPC and MDRI (from 2006) debt relief.

Table 2. Senegal: Balance of Payments, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Est.	Proj.					
	(CFAF billions, unless otherwise indicated)								
Current account	-464	-638	-617	-573	-626	-656	-688	-742	-799
Balance on goods	-836	-1,193	-1,234	-1,093	-1,181	-1,294	-1,386	-1,496	-1,610
Exports, f.o.b.	833	803	916	800	917	979	1,032	1,110	1,196
Imports, f.o.b.	-1,670	-1,996	-2,150	-1,893	-2,098	-2,272	-2,419	-2,607	-2,806
Services and incomes (net)	-65	-64	-103	-105	-89	-73	-60	-59	-64
Credits	512	671	671	619	650	694	756	817	876
Debits	-577	-734	-774	-724	-740	-768	-816	-876	-941
Of which: interest on public debt	-36	-24	-24	-26	-31	-31	-31	-30	-30
Unrequited current transfers (net)	438	618	720	625	645	711	758	813	872
Private (net) 1/	409	566	685	568	606	674	717	768	822
Public (net)	28	52	35	57	39	36	41	46	50
Of which: budgetary grants	9	53	38	61	41	38	41	44	47
Capital and financial account	520	690	512	620	544	678	724	803	873
Capital account	1,234	182	109	109	114	122	130	139	149
Private capital transfers	7	7	7	7	7	8	8	8	8
Project grants	64	86	101	101	107	114	122	131	140
Debt cancellation and other transfers 2/ 3/	1,163	89	0	0	0	0	0	0	0
Financial account	-714	508	404	512	430	556	594	664	725
Direct investment	110	131	82	78	114	169	187	219	251
Portfolio investment	-11	29	0	23	32	87	71	67	60
Other investment	-812	348	321	411	283	300	336	378	414
Public sector (net)	-1,021	114	307	352	154	101	114	131	180
Of which: disbursements	145	154	260	402	206	191	207	226	253
program loans	39	19	70	63	30	17	18	19	20
project loans	107	138	192	155	176	192	207	225	251
other	-3	-2	-2	184	0	-18	-18	-18	-18
Of which: SDR allocation	0	0	0	94	0	0	0	0	0
amortization	-1,166	-54	-44	-50	-52	-89	-93	-95	-73
Private sector (net)	173	254	105	59	130	198	221	247	234
Errors and omissions	36	-20	-91	0	0	0	0	0	0
Overall balance	57	51	-105	48	-82	22	36	60	74
Financing	-57	-51	105	-72	58	-22	-36	-60	-74
Net foreign assets (BCEAO)	-83	-75	-8	-86	46	-33	-48	-71	-84
Net use of Fund resources	-66	0	17	24	0	-2	-3	-3	-9
Purchases/disbursements	11	0	17	24	0	0	0	0	0
Repurchases/repayments	-77	0	0	0	0	-2	-3	-3	-9
Other	-16	-75	-25	-110	46	-32	-46	-69	-75
Deposit money banks	-37	3	98	-5	-6	-6	-6	-7	-7
Exceptional financing 3/	63	21	16	20	18	17	18	17	17
Residual financing gap 4/	0	0	0	24	24	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-9.5	-11.8	-10.4	-9.6	-9.9	-9.7	-9.5	-9.6	-9.6
Excluding current official transfers (percent of GDP)	-10.5	-13.2	-11.4	-10.9	-10.8	-10.6	-10.4	-10.5	-10.5
Gross official reserves (imputed reserves, billions of US$)	1.3	1.6	1.5	1.8	1.7	1.8	1.9	2.0	2.1
(percent of broad money)	37.8	37.2	37.1	39.0	33.2	30.2	28.2	26.9	25.9
WAEMU gross official reserves (billions of US$)	8.1	10.7	10.5	…	…	…	…	…	…
(percent of broad money)	57.5	57.8	56.0	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	5.5	5.9	6.4	…	…	…	…	…	…
Gross domestic product	4,893	5,408	5,935	5,983	6,336	6,756	7,230	7,743	8,292

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

1/ Upwardly revised from 2008 based on a new survey of workers' remittances.
2/ Includes receipts from sale of a telecom license in 2007.
3/ Includes MDRI stock debt relief in 2006.
4/ Financing gap in 2009 and 2010 to be filled with ESF drawings.

Table 3. Senegal: Government Financial Operations, 2006–14

	2006	2007	2008	2009		2010	2011	2012	2013	2014
			Est.	Prog.	Proj.	Proj.		Proj.		
	(Billions of CFA francs, unless otherwise indicated)									
Total revenue and grants	1,036	1,277	1,293	1,354	1,323	1,390	1,495	1,621	1,750	1,890
Revenue	963	1,139	1,153	1,201	1,160	1,242	1,343	1,458	1,575	1,703
Tax revenue	922	1,088	1,088	1,172	1,125	1,199	1,297	1,409	1,523	1,647
Income tax	219	232	273	302	284	300	326	356	388	423
Taxes on goods and services	533	628	616	648	625	663	715	772	838	908
Taxes on petroleum products	170	215	199	222	216	235	256	282	297	315
Nontax revenue	41	51	65	30	36	43	46	49	52	56
Grants	73	138	140	153	162	148	152	163	174	187
Budgetary	9	53	38	51	61	41	38	41	44	47
Budgeted development projects	64	86	101	101	101	107	114	122	131	140
Total expenditure and net lending	1,331	1,491	1,579	1,645	1,592	1,703	1,803	1,932	2,062	2,218
Current expenditure	829	881	979	988	957	989	1,048	1,111	1,189	1,264
Wages and salaries 1/	286	327	348	389	370	397	419	448	480	514
Interest due	42	34	39	60	48	53	58	71	81	91
Of which : external 2/	36	24	24	36	26	31	31	31	30	30
Other current expenditure	500	519	593	540	539	539	572	592	628	659
Transfers and subsidies 3/	308	287	333	270	270	250	267	267	282	289
Of which : SAR and butane subsidy	66	55	69	44	44	0	0	0	0	0
Of which: SENELEC	86	0	30	18	18	0	0	0	0	0
Of which: Food subsidies	0	21	46	0	0	0	0	0	0	0
Goods and services	186	217	239	256	256	277	293	313	335	358
HIPC and MDRI current spending	7	15	21	13	13	12	12	12	11	11
Capital expenditure 4/	475	605	595	655	633	713	755	821	873	954
Domestically financed	337	392	314	408	386	439	459	503	529	576
HIPC and MDRI-financed	26	60	63	54	42	48	48	47	46	46
Non-HIPC/MDRI financed	311	331	251	354	344	392	412	456	484	530
Externally financed	138	213	281	247	247	273	295	318	344	378
Net lending	27	5	5	2	2	2	0	0	0	0
Of which : On-lending	33	10	12	10	10	10	11	11	12	13
Selected public sector entities balance 5/	16	16	13	0	0	0	0	0	0	0
Primary fiscal balance	-236	-163	-235	-231	-221	-260	-251	-240	-232	-237
Overall fiscal balance (including grants)	-279	-198	-273	-291	-269	-313	-308	-311	-313	-328
Overall fiscal balance (excluding grants)	-352	-336	-413	-444	-431	-462	-461	-474	-487	-515
Basic fiscal balance 6/	-165	-54	-50	-119	-119	-119	-95	-86	-74	-67
Financing	279	198	273	291	269	313	308	311	313	328
External financing	121	131	224	263	292	191	189	181	191	233
Drawings	146	156	262	219	218	206	209	225	244	271
Program loans	39	19	70	64	63	30	17	18	19	20
Project loans	107	138	192	155	155	176	192	207	225	251
Amortization due	-58	-54	-44	-56	-50	-52	-89	-93	-95	-73
Debt relief and HIPC Initiative assistance	41	21	16	22	20	18	17	18	17	17
T-bills and bonds issued in WAEMU	-8	8	-9	-2	14	20	70	49	43	36
Nonconcessional loans for infrastructure development	0	0	0	80	90	0	-18	-18	-18	-18
Domestic financing	158	58	124	46	19	182	156	130	121	95
Banking system 7/	128	98	-46	-33	36	182	156	131	122	96
Of which : T-bills and bonds	23	136	-16	-57	-26	69	178	151	136	113
Nonbank financing	30	-40	169	78	-17	-1	-1	-1	-1	-1
Settlement of payment delays 8/	0	0	-84	-66	-66	-83	-36	0	0	0
Errors and omissions	-1	9	9	0	0	0	0	0	0	0
Financing gap 9/	0	0	0	48	24	24	0	0	0	0
Memorandum items:										
Budgetary float (program definition)	58	55	66	45	45	45	45	45	45	45
New issues of government securities	...	183	131	80	127	177	...	...	...	...
Priority expenditure (percent of total expenditure) 10/	31	32	33	36	34	35	…	…	…	…
Gross domestic product	4,893	5,408	5,935	6,264	5,983	6,336	6,756	7,230	7,743	8,292

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

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.
2/ From 2006 on, reflects post-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
4/ Includes recapitalization of SENELEC. The government provided CFAF 65 billion in 2007 under domestically-financed capital expenditure, while budget support by the World Bank and France in 2008-10 specifically earmarked for the recapitalization is being provided under externally-financed capital expenditure.
5/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).
6/ Total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.
7/ Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.
8/ Within the expenditure chain in 2008-09; extrabudgetary spending and agency debt in 2010 (70 percent) and 2011 (30 percent).
9/ Financing gap in 2009 and 2010 to be filled with ESF drawings.
10/ Defined as expenditures on health, education, environment, the judiciary, social development, sewage, and rural irrigation.

Table 4. Senegal: Government Financial Operations, 2006–14

	2006	2007	2008	2009		2010	2011	2012	2013	2014
			Est.	Prog.	Proj.			Proj.		
				(Percent of GDP)						
Total revenue and grants	21.2	23.6	21.8	21.6	22.1	21.9	22.1	22.4	22.6	22.8
Revenue	19.7	21.1	19.4	19.2	19.4	19.6	19.9	20.2	20.3	20.5
Tax revenue	18.8	20.1	18.3	18.7	18.8	18.9	19.2	19.5	19.7	19.9
Income tax	4.5	4.3	4.6	4.8	4.7	4.7	4.8	4.9	5.0	5.1
Taxes on goods and services	10.9	11.6	10.4	10.3	10.4	10.5	10.6	10.7	10.8	11.0
Taxes on petroleum products	3.5	4.0	3.4	3.6	3.6	3.7	3.8	3.9	3.8	3.8
Nontax revenue	0.8	0.9	1.1	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Grants	1.5	2.6	2.4	2.4	2.7	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	27.2	27.6	26.6	26.3	26.6	26.9	26.7	26.7	26.6	26.8
Current expenditure	16.9	16.3	16.5	15.8	16.0	15.6	15.5	15.4	15.4	15.2
Wages and salaries	5.8	6.1	5.9	6.2	6.2	6.3	6.2	6.2	6.2	6.2
Interest payments 1/	0.9	0.6	0.6	1.0	0.8	0.8	0.9	1.0	1.0	1.1
Other current expenditure	10.2	9.6	10.0	8.6	9.0	8.5	8.5	8.2	8.1	7.9
Of which: Goods and services	3.8	4.0	4.0	4.1	4.3	4.4	4.3	4.3	4.3	4.3
Of which: Transfers and subsidies	6.3	5.3	5.6	4.3	4.5	3.9	3.9	3.7	3.6	3.5
Of which: Energy and food subsidies	3.1	1.4	2.4	1.0	1.0	0.0	0.0	0.0	0.0	0.0
HIPC and MDRI current spending	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Capital expenditure 2/	9.7	11.2	10.0	10.4	10.6	11.2	11.2	11.4	11.3	11.5
Domestically financed	6.9	7.2	5.3	6.5	6.5	6.9	6.8	7.0	6.8	6.9
Of which: Without transfers to PEs	6.9	6.0	4.7	6.5	6.5	6.9	6.8	7.0	6.8	6.9
Externally financed	2.8	3.9	4.7	3.9	4.1	4.3	4.4	4.4	4.4	4.6
Net lending	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected public sector entities balance 3/	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-5.2	-3.3	-4.2	-3.7	-3.7	-4.1	-3.7	-3.3	-3.0	-2.9
Overall fiscal balance										
Payment order basis, excluding grants	-7.2	-6.2	-7.0	-7.1	-7.2	-7.3	-6.8	-6.6	-6.3	-6.2
Payment order basis, including grants	-5.7	-3.7	-4.6	-4.6	-4.5	-4.9	-4.6	-4.3	-4.0	-4.0
Basic fiscal balance 4/	-3.4	-1.0	-0.8	-1.9	-2.0	-1.9	-1.4	-1.2	-1.0	-0.8
Financing	5.7	3.7	4.6	4.6	4.5	4.9	4.6	4.3	4.0	4.0
External financing	2.5	2.4	3.8	4.2	4.9	3.0	2.8	2.5	2.5	2.8
Domestic financing	3.2	1.1	2.1	0.7	0.3	2.9	2.3	1.8	1.6	1.2
Settlement of payment delays 5/	0.0	0.0	-1.4	-1.1	-1.1	-1.3	-0.5	0.0	0.0	0.0
Errors and omissions	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	0.8	0.4	0.4	0.0	0.0	0.0	0.0
Memorandum items:			(Percent of GDP, unless otherwise indicated)							
Priority expenditure 7/	8.5	8.9	8.9	9.6	9.1	9.3	…	…	…	…
Wages and salaries (percent of revenue)	29.7	28.7	30.2	32.4	31.9	32.0	31.2	30.7	30.5	30.2

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

1/ From 2006 on, reflects post-MDRI debt service schedule.
2/ Includes SENELEC recapitalization. The government provided CFAF 65 billion in 2007 under domestically-financed capital expenditure, while earmarked budget support by the World Bank and France in 2008-10 is being provided under externally-financed capital expenditure.
3/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants pension fund (FNR).
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.
5/ Within the expenditure chain in 2008-09; extrabudgetary spending and agency debt in 2010 (70 percent) and 2011 (30 percent).
6/ Financing gap in 2009 and 2010 to be filled with ESF drawings.
7/ Defined as expenditures on health, education, environment, the judiciary, social development, sewage, and rural irrigation.

Table 5. Senegal: Monetary Survey, 2005–09

	2005	2006	2007	2008	2009
				Est.	Proj.
			(CFAF billions)		
Net foreign assets	660	780	851	762	854
Central Bank of West African States (BCEAO)	487	569	644	653	739
Commercial banks	173	210	207	109	115
Net domestic assets	894	972	1,122	1,245	1,338
Net domestic credit	1,032	1,122	1,324	1,467	1,570
Net credit to the government	-35	11	96	28	64
Central bank	84	45	55	-14	8
Commercial banks	-123	-46	21	33	47
Other institutions	4	12	20	9	10
Credit to the economy	1,067	1,111	1,228	1,440	1,506
Of which: crop credit	10	9	10	5	5
Other items (net)	-138	-151	-202	-223	-232
Broad money (M2)	1,553	1,751	1,973	2,007	2,192
Currency outside banks	378	453	485	474	473
Total deposits	1,176	1,298	1,488	1,532	1,718
Demand deposits	593	652	784	779	905
Time deposits	582	646	705	754	813
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-1.2	7.7	4.1	-4.5	4.6
BCEAO	0.7	5.3	4.3	0.4	4.3
Commercial banks	-1.8	2.4	-0.2	-5.0	0.3
Net domestic assets	8.6	5.0	8.6	6.2	4.6
Net credit to the government	-4.1	3.0	4.9	-3.5	1.8
Credit to the economy	14.5	2.9	6.7	10.7	3.3
Other items (net)	-1.8	-0.8	-2.9	-1.0	-0.5
Broad money (M2)	7.4	12.7	12.7	1.7	9.2
Memorandum items:			(Units indicated)		
Velocity (GDP/M2; end of period)	3.0	2.8	2.7	3.0	2.7
Nominal GDP growth (percentage growth)	8.3	6.5	10.5	9.8	0.8
Credit to the economy (percentage growth)	24.5	4.2	10.5	17.2	4.6
Credit to the economy/GDP (percent)	23.2	22.7	22.7	24.3	25.2
Variation of net credit to the government (from previous year; CFAF billions)	-59.2	46.3	85.1	-68.3	36.0
Central bank refinance rate (eop/latest; percent)	4.00	4.25	4.25	4.75	4.25

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

Table 6. Financial Soundness Indicators for the Banking Sector, 2003–09
(Percent, unless otherwise indicated)

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Jun.
Capital adequacy							
Capital to risk-weighted assets	11.7	11.5	10.8	12.9	13.5	13.8	15.5
Regulatory capital to risk-weighted assets	12.1	11.9	11.1	13.1	13.6	13.9	15.9
Capital to total assets	7.8	7.7	7.6	8.3	8.3	9.1	9.8
Asset composition and quality							
Total loans to total assets	59.6	57.1	64.0	63.8	58.8	62.8	63.1
Concentration: loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	88.5	86.9	91.8
Sectoral distribution of loans							
Industrial	41.1	33.6	35.5	28.9	25.1	19.5	25.3
Retail and wholesale trade	19.9	19.3	17.0	18.9	14.4	18.5	16.5
Services, transportation and communication	17.2	27.4	28.0	30.0	29.6	31.1	35.4
Gross NPLs to total loans 1/	13.3	12.6	11.9	16.8	18.6	19.1	18.0
Of which: without ICS	…	…	…	…	12.7	14.2	15.4
Provisions to NPLs 1/	75.3	75.7	75.4	52.0	53.8	51.5	50.5
Of which: without ICS	…	…	…	…	74.6	62.9	60.9
NPLs net of provisions to total loans 1/	3.3	3.4	3.2	8.8	8.6	9.3	9.8
Of which: without ICS	…	…	…	…	3.6	5.4	6.6
NPLs net of provisions to capital 1/	27.8	25.1	27.2	67.9	60.7	63.9	62.9
Of which: without ICS	…	…	…	…	23.8	35.3	41.2
Earnings and profitability							
Average cost of borrowed funds	1.8	2.0	2.0	2.2	2.3	…	…
Average interest rate on loans	8.7	11.7	11.8	11.3	11.6	…	…
Average interest margin 2/	6.7	9.7	9.8	9.2	9.4	…	…
After-tax return on average assets	1.8	1.8	1.6	1.6	1.6	…	…
After-tax return on average equity	22.1	17.6	15.8	14.6	15.3	…	…
Noninterest expenses/net banking income	48.9	48.7	47.9	49.4	50.7	…	…
Salaries and wages/net banking income	21.8	21.5	21.2	21.7	22.2	…	…
Liquidity							
Total deposits to total liabilities	82.0	79.6	78.3	75.8	73.6	70.3	71.2

Source: BCEAO.

1/ NPL changes in 2006 due to ICS. In 2008, ICS was recapitalized and the government guarantee for its bank loans was lifted. However, the loans in question remain classified as non-performing for the time being, although without the need to provision.

2/ Excluding the tax on banking operations.

Table 7. Quantitative Assessment Criteria (Performance Criteria) and Indicative Targets for 2009 1/

(CFAF billions, unless otherwise specified)

	June 30, 2009			September 30, 2009		
	Assessment criterion	Actual	Status	Indicative target	Actual	Status
Assessment (performance) criteria						
Floor on the basic fiscal balance 2/	-60	-19	Met	-90	-79	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	80 5/	0	Met	80 5/	0	Met
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	Met	0	0	Met
Ceiling on government external payment arrears (stock) 4/	0	0	Met	0	0	Met
Ceiling on the amount of the float (*depenses liquidées non payées par le Tresor*) 6/	45	42	Met	45	42	Met
Indicative target						
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	14	Met	20	5	Met

1/ Indicative targets for September 2009, except for the assessment (performance) criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ Excluding government or government-guaranteed CFAF borrowing from financial institutions within the WAEMU and external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

4/ Monitored on a continuous basis.

5/ Cumulative since approval of second PSI review. The amount of up to CFAF 80 billion is to finance exclusively the Dakar-Diamniadio toll highway project.

6/ Defined as all expenditure for which a bill has been received and recognized (*dépense liquidée*) but not yet paid by the Treasury.

Table 8. Senegal: Indicators of Capacity to Repay the Fund, 2008–20

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Projections											
Obligations to the Fund from existing drawings													
Principal (SDR millions)	0.0	0.0	0.4	2.1	3.5	3.5	11.6	14.5	12.7	11.3	11.3	3.2	0.0
Charges/Interest (SDR millions) 1/	0.8	0.4	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1
Obligations to the Fund from prospective drawings 2/													
Principal (SDR millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.7	12.9	12.9	12.9	12.9	3.2
Charges/Interest (SDR millions) 1/	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.0
Total existing and prospective obligations to the Fund 2/													
In millions of SDRs	0.8	0.4	1.1	2.9	4.2	4.2	12.3	24.8	26.2	24.7	24.6	16.3	3.3
In millions of U.S. dollars	1.3	0.7	1.6	4.4	6.6	6.5	19.0	38.4	40.5	38.2	38.0	25.3	5.2
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.2	0.2	0.5	0.9	0.9	1.0	0.9	0.6	0.1
In percent of debt service	0.8	0.4	0.8	1.5	2.2	2.1	6.8	11.1	11.1	10.0	9.4	6.2	1.3
In percent of quota	0.5	0.3	0.7	1.8	2.6	2.6	7.6	15.3	16.2	15.2	15.2	10.1	2.1
In percent of gross official reserves	0.1	0.0	0.1	0.2	0.3	0.3	0.9	1.8	2.0	1.9	1.8	1.2	0.2
Total Fund credit outstanding 2/													
In millions of SDRs	41.6	106.3	138.3	136.3	132.8	129.3	117.8	93.6	68.0	43.7	19.4	3.2	0.0
In millions of U.S. dollars	63.3	165.5	215.1	211.6	206.1	200.5	182.2	145.0	105.2	67.7	30.1	5.0	0.0
In percent of exports of goods and services	1.9	6.0	6.8	6.3	5.8	5.3	4.5	3.3	2.2	1.8	0.7	0.1	0.0
In percent of debt service	37.2	93.8	106.2	73.5	68.0	65.0	65.5	42.1	28.9	17.7	7.5	1.2	0.0
In percent of quota	25.7	65.7	85.5	84.2	82.1	79.9	72.8	57.9	42.0	27.0	12.0	2.0	0.0
In percent of gross official reserves	3.8	9.3	12.4	11.7	10.9	9.9	8.4	7.0	5.1	3.3	1.4	0.2	0.0
Memorandum items:													
Exports of goods and services (millions of US$)	3,343	2,767	3,153	3,361	3,569	3,817	4,062	4,347	4,759	3,762	4,095	4,456	4,847
Debt service (millions of US$)	170	177	203	288	303	309	278	345	364	382	402	408	401
Quota (millions of SDRs)	162	162	162	162	162	162	162	162	162	162	162	162	162
Gross official reserves (millions of US$)	1,668	1,788	1,738	1,801	1,888	2,019	2,157	2,077	2,053	2,061	2,097	2,161	2,264
GDP (millions of US$)	13,316	12,526	13,608	14,443	15,339	16,283	17,243	18,492	19,852	21,321	22,900	24,606	26,447

Sources: BCEAO; and Fund staff estimates and projections.

1/ Obligations to the Fund do not take into account the temporary waiver of interest payments and new interest rates structure, which have not yet become effective.

2/ Based on the following ESF disbursement schedule: SDR 32.36 million (20 percent of quota) upon completion of the second ESF review, December 2009; and SDR 32.36 million (20 percent of quota) upon completion of the third ESF review, June 2010.

LETTER OF INTENT

Translation from French

Dakar, Senegal
December 4, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and implementation of the government of Senegal's macroeconomic and structural program under the country's three-year Policy Support Instrument (PSI), approved by the IMF Executive Board on November 2, 2007, and the Exogenous Shocks Facility (ESF) arrangement, approved on December 19, 2008, and augmented and extended on June 19, 2009. The attached MEFP builds on previous Memoranda, and sets out policies the government intends to implement with emphasis on measures and objectives for 2010.

2. All quantitative assessment (performance) criteria for June 2009 and all quantitative indicative targets for September 2009 were met. Structural reforms, which are focused on public financial management, have generally progressed in line with the program despite some delays. Given the complexity of the task, the government is in the process of finalizing the procedures regarding regularization of extrabudgetary commitments and the debt of public agencies and institutions, and has therefore not been able to incorporate them in the 2010 budget law. The government will submit to parliament by May 15, 2010, a supplementary budget containing the specific entries and budget lines to settle these payments. As described in the attached MEFP, the government continues to pursue an ambitious program of budget and fiscal reform, governance reform, and energy sector reform.

3. To supplement resources from donors and the private sector, the government is mobilizing external funds for the Dakar-Diamniadio toll highway. To this end, the government requests to raise the ceiling for non-concessional borrowing for this project by CFAF 10 billion (less than 0.2 percent of GDP) to CFAF 90 billion. The higher ceiling would allow the government to accommodate possibly higher costs and issue a bond in international markets of $200 million, typically seen as a minimum size for this type of transaction. The small increase would have no negative impact on debt sustainability.

4. In light of our overall performance and based on the policies set forth in the attached MEFP, we request completion of the fourth review of the PSI and the second review of the ESF arrangement with a disbursement in the amount of SDR 32.36 million.

5. The government believes that the policies and measures set forth in the attached MEFP are sufficiently strong to achieve the objectives of the PSI-supported program and ESF arrangement. It will promptly take any additional measures necessary for the achievement of the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum. The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the fifth review of the PSI and third review of the ESF will be completed by May 28, 2010.

6. The government authorizes the IMF to publish this letter, the attached Memorandum, and the related Staff Report.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of State
Minister of Economy and Finance

Attachments: - Memorandum on Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

Dakar, December 4, 2009

I. INTRODUCTION

1. **This memorandum updates Senegal's economic program under the three-year Policy Support Instrument with the IMF for the period 2007–10 and the Exogenous Shocks Facility arrangement since December 2008.**[1] The program supported under the PSI focuses on (i) pursuing a prudent fiscal policy and preventing a recurrence of payment delays; (ii) strengthening governance and transparency; (iii) promoting private sector activity; and (iv) enhancing the contribution of the financial sector to the economy. This memorandum describes recent economic developments and program implementation followed by a discussion of the economic outlook for 2010 and the government's commitments to pursuing macroeconomic and structural reforms.

2. **In a challenging external environment, the government remains committed to preserving macroeconomic stability, fostering good public financial management, strengthening growth driven by the private sector, and making rapid progress toward achieving the Millennium Development Goals (MDGs)**. The government has demonstrated a determined approach to overcoming its budget execution problems. The extent of these problems was defined in mid-2008 thanks in particular to program measures. Decisive improvements were made in correcting payment delays to the private sector and implementing ambitious reforms to improve the efficiency and transparency of public financial management. Continued progress in this area, in particular settling extrabudgetary commitments and agency debts, should make it possible to fully normalize relations with the private sector. This will also allow the government to broaden the focus of its reforms.

II. RECENT ECONOMIC DEVELOPMENTS, SHORT-TERM OUTLOOK, AND PROGRAM PERFORMANCE

3. **Macroeconomic performance in 2009 was modest.** The global financial crisis had a marked impact on Senegal's economy but domestic factors also played a role.

[1] Details of this program were set out in the initial MEFP of October 3, 2007 and in the MEFPs of May 30, 2008, December 5, 2008, and June 5, 2009.

- Real GDP growth slowed. During the first three quarters of 2009, business activity remained weak. The general activity index (excluding agriculture and administration) was flat (year-on-year). Recent flooding and electricity outages exacerbated economic challenges. Growth is expected to be around 1.2 percent in 2009. Relatively robust performance of the primary sector is due to favorable weather as well as an active agricultural policy. In the secondary sector, Industries Chimiques du Sénégal (ICS) pursued its recovery efforts but was faced with much reduced output prices. The tertiary sector, a traditional driving force of the Senegalese economy, registered unsatisfactory results.

- Consumer price inflation (year-on-year) turned negative in May, largely because food and energy prices fell.

- The external current account deficit is projected to improve compared to 2008, primarily as a result of the decline in oil and food prices for the year as a whole.

4. **All quantitative program criteria for end-June 2009 and quantitative indicative targets for end-September 2009 were met.**

(a) The basic fiscal balance ceiling for June 2009 was observed despite a decline in revenues as compressed capital spending and reduced current spending more than offset the revenue loss. As planned, the government eliminated the butane gas subsidy at end-June 2009. The basic fiscal deficit at end-June 2009 amounted to CFAF 19.2 billion, compared to a program ceiling of CFAF 60 billion. Preliminary data indicate that the basic fiscal balance ceiling for end-September 2009 (indicative target) was also observed.

(b) At end-June 2009 the budgetary float had declined to a normal level of CFAF 41 billion (⅔ percent of GDP) from CFAF 175 billion (3 percent of GDP) in October 2008. At end-September 2009, the budgetary float amounted to CFAF 42 billion, also below the ceiling of CFAF 45 billion.

(c) The government did not accumulate any external payment arrears.

(d) It has not contracted or guaranteed any nonconcessional borrowing since the second PSI program review, including the CFAF 80 billion for the autoroute (toll highway) permitted under the program.

(e) It has not approved any Treasury cash advances since end-2008 and has executed budget expenditure according to the normal and simplified procedures.

(f) The government limited single-tender contracts to 14 percent of all government procurement in the second quarter of 2009 and 5 percent in the third quarter of 2009 (compared to a program ceiling of 20 percent).

5. **Significant progress was also made regarding structural reforms.** The majority of structural benchmarks were met and the government is in the process of addressing previous delays.

(a) Following the audit by the Financial Audit Inspectorate (*IGF*), an independent external audit for extrabudgetary expenditure was completed in July 2009. It identified extrabudgetary spending of CFAF 37 billion and public agency and institution debt of CFAF 67 billion as of December 31, 2008. The government made an initial assessment regarding the claims that are to be settled (structural benchmark, end-July 2009).

(b) The first audit reports of the procurement regulatory agency (ARMP) have been completed. These reports enhance budget transparency and governance and assist in assessing the operation of the new government procurement framework.

(c) The government has prepared a report on the current level of tax expenditures (structural benchmark, end-September 2009). The report highlights key tax expenditures. The analysis suggests that tax exemptions and other forms of tax expenditures could be equivalent to 3¾ percent of GDP.

(d) A completed external audit of the IT infrastructure of the expenditure tracking system, SIGFIP, and an expert review of the system (supported by the IMF's Fiscal Affairs Department) have provided a sound basis for strengthening budget monitoring (structural benchmark, end-September 2009).

(e) For the 2010 budget newly agreed procedures are being followed. The presentation of the proposed budget has been improved to make it more flexible and information more understandable and transparent by moving towards international best practices (structural benchmark, October 15, 2009). The budget contains (i) a contingency expenditure line of 5 percent of current expenditure excluding personnel outlays; (ii) an annex with execution and forecast data for each agency, para-public sector enterprise, and other public entity receiving budgetary allocations of more than CFAF 5 billion; and (iii) SIGFIP data on budget execution for the past year and the first six months of the current year. Some aspects could be improved further. Specifically, the budget should (i) contain budget execution data for the past year and the first six months of the current year using TOFE data; and (ii) also provide a contingency expenditure line of five percent of capital expenditure, excluding externally funded expenditure. The government will include this information in future budgets.

(f) The government made progress with the use of SIGFIP and ASTER as complementary information systems to improve the preparation, execution, and monitoring of fiscal and accounting operations and make the production of the financial operations table (TOFE) more reliable. The ASTER auxiliary expenditure module will be operational with a delay (structural benchmark end-October 2009). The general expenditure accounting module is operational at the level of senior accounting units (*postes comptables supérieurs*) of the country; the preliminary version of the interface with SIGFIP is currently being tested at the ASTER level. The interface between SIGFIP and ASTER strengthens the linkages between fiscal and accounting operations and facilitates preparation of the general accounts of the financial administration, thereby shortening the time required to prepare the final budgets (*lois de règlement*). This is an essential operation to reinforce the expenditure chain. The auxiliary expenditure accounting module (*CAD*) will be operational in 2010. To press ahead with these reforms, a high-level information systems steering committee has been established within the Ministry of Economy and Finance.

(g) The government adopted, by end-October 2009 (structural benchmark), all the necessary provisions to transfer FSIPP (*Fonds de Sécurisation des Importations en Produits Pétroliers*) / FSAPP (*Fonds de Sécurisation des Approvisionnements en Produits Pétroliers*) collection from SAR to the DGID and ensure transparent monitoring and improved accounting. The DGID initiated control over FSAPP in October 2009, in particular with respect to the financial flows between SAR and other oil companies. To this end, since November 2009: (i) FSAPP revenues related to imported finished petroleum products have been collected by the DGID directly from oil companies and deposited in a Treasury account; (ii) FSAPP revenues related to refinery operations have been collected by SAR and transferred to the DGID, which will deposit the funds in a Treasury account at the BCEAO; (iii) FSAPP revenues collected on refinery operations are being used to pay the balance of SAR's debt and for investments in the petroleum sector and SAR; and (iv) any subsidy or transfer to SAR, or any strategic investment in the petroleum sector considered important by the government (such as strengthening SAR's refinery capacities, installing the sea line, etc.) will need to be transparently reflected in the government budget and be subject to public procurement rules.

III. Macroeconomic Policies for the Remainder of 2009 and for 2010

A. Outlook

6. **Improvements in the global economic outlook should help support a gradual recovery in economic activity in Senegal.** Growth of about 3½ percent is expected in 2010. The projection assumes that the global recovery will continue. Inflation is expected to return to about 2 percent as oil and food prices cease to exert downward pressure on consumer prices.

7. **These projections are subject to substantial risks.** Unfavorable developments in the international environment, including a decline in private transfers from abroad, official

development assistance, exports, or foreign direct investment would have a negative impact on economic growth. Also, energy sector issues will need to be resolved fast to minimize risks of a growing adverse impact on economic activity.

B. Fiscal Policy Stance

8. **The global financial crisis and ongoing challenges in the energy sector affected budget developments in 2009.** In light of weak revenues, the government contained expenditure taking into account available resources. The government benefited from a ten-year CFA franc loan from the BCEAO equivalent to the SDR allocation, but some expected financing failed to materialize, including privatization receipts (Hotel Méridien). The basic fiscal deficit will remain within the quantitative assessment (performance) criterion at end-December 2009 (CFAF 119 billion).

9. **For 2010, the budget submitted to the parliament in October is generally in line with the macroeconomic framework of the Third Review.** Given the effect on revenues of an economy operating below potential, the overall budget deficit (including grants) could reach about 5 **percent** of GDP in 2010. The budget aims to increase capital expenditure to about 11 percent of GDP and to protect social outlays. In the current challenging economic environment, it is essential to protect social expenditure. Accordingly, it will be increased from 33 percent at end-2008 to 35 percent of total expenditure in 2010. The government will make every effort to rapidly increase social expenditure further to the PRSP target of 40 percent of total expenditure, initially set for 2010.

10. **The government has managed to eliminate payment delays in the regular expenditure chain and is committed to settling, swiftly and transparently, all extrabudgetary arrears and public institution and agency debt identified in the recent audit.** It is in **the** process of specifying the settlement procedures.

(a) The government will issue a press release summarizing the results of the audit of extrabudgetary expenditure and public institution and agency debt, setting forth its strategy for settling payments in the first supplementary budget for 2010, and clearly describing the modalities for settlement (structural benchmark, January 31, 2010).

(b) A supplementary budget will be submitted to parliament no later than May 15, 2010 (structural benchmark, May 15, 2010). It will include the specific entries/items authorizing the Ministry of Finance to settle in 2010 the extrabudgetary arrears and the public institution and agency debt identified in the July 2009 audit, and not yet budgeted for. Debts not requiring a budgetary allocation will be presented in an annex to the supplementary budget. In the event financing falls short of what the budget requires, trade-offs will be necessary. Furthermore, the government will ensure that transfers from Treasury correspondent accounts (held by agencies and public institutions) are made in a timely manner (no later than 90 days after the Treasury receives the check) to their bank accounts and/or as payments to enterprises for bills, invoices, and other statements that have fallen due. These provisions apply to checks awaiting Treasury approval as of December 17, 2009. Those checks for which the 90-day period has passed will be settled by end-September 2010 in accordance with a specific plan. Accordingly, the following steps will be taken: (i) a cash flow plan is established in advance between the Treasury and the correspondents, and this plan is updated periodically; (ii) transfer or payment intentions are reported to the Treasury at least thirty days before the withdrawal or payment date. To support this process, the government will adjust the timing of transfers to Treasury correspondent accounts as needed.

11. The government commits to settle at least 50 percent of extrabudgetary arrears and public institution and agency debt identified in the July 2009 audit, in accordance with the strategy announced by the government in January (structural benchmark, end-September 2010). Additional resources available in 2010 will be used for payment of the remaining amounts.

12. **In order to mobilize sufficient financing, debt management will be strengthened in line with the government's prior commitments.** The government will update the rolling two-year government issuance calendar on a quarterly basis or after each issuance, in cooperation with the Central Bank of West African States (BCEAO). The government will signal to the WAEMU Council of Ministers the need to improve coordination of Member States' access to the regional financial market.

13. **The government bases its medium-term fiscal policy stance on debt sustainability considerations, and it will maintain a prudent fiscal policy.** It is committed to limiting the overall fiscal deficit to 4 percent of GDP over the medium term. The government's semi-annual public debt sustainability analysis will include a risk assessment for contingent liabilities arising from guarantees issued by the government to Public-Private Partnerships (PPPs) and operations of public enterprises.

14. **To ensure the debt remains sustainable, the government will focus on concessional financing and, in general, not contract or guarantee external borrowing on nonconcessional terms.** To supplement resources from donors and the private sector, external non-concessional funds earmarked for the Dakar-Diamniadio toll highway and authorized by the program are being mobilized. The government requests to raise the existing ceiling for non-concessional borrowing for this project from CFAF 80 billion (quantitative assessment (performance) criterion) to CFAF90 billion. The higher ceiling would allow the government to accommodate possibly higher costs and issue a bond in international markets of US$200 million, typically seen as a minimum size for this type of transaction. The small increase would have no negative impact on debt sustainability. The government will consult with IMF staff in advance regarding any other exceptions to this program criterion. Nonconcessional borrowing should be guided by

debt sustainability considerations and should be linked to specific economically profitable projects, for which sufficient concessional financing could not be mobilized.

C. Structural reforms

Budget Reforms

15. **With progress made, the government remains committed to continuing its ambitious budget reforms.** These reforms, based on a fiscal reform program supported by the government and development partners (in particular the IMF technical assistance report and the PEFA report) are essential to enhancing budget efficiency and transparency, while also helping to protect macroeconomic stability.

16. **As during the last budget cycle, the government will follow the closing provisions for budget execution and accounting.**

(a) The government has set a November 30 cut-off date for making budget commitments (*engagements*).

(b) The legally stipulated complementary period, under which the administrative phase of budget execution (payment orders) ends on December 31 (structural benchmark) and the accounting phase (payments) at end-February of the subsequent year, will be applied.

(c) Beyond February 28, any operation from the previous budget year with an impact on government cash flows must be included in the accounts for the current year.

(d) The SIGFIP data for each budget year will be frozen and published in detail on a website of the Ministry of Economy and Finance latest by April 30. For any payment after April 30, a new payment order needs to be issued and imputed to the current fiscal year. A payment of CFAF 5 billion, still outstanding when the accounting for the 2008 budget was closed, should have been recorded in the 2009 Treasury accounts but was recorded retroactively in 2008. Unwinding this transaction would have been too cumbersome administratively.

(e) The preliminary SIGFIP and TOFE end-month data will be published on a website of the Ministry of Finance within 10 and 45 days, respectively, beginning with the TOFE for November 2009 and the SIGFIP for end-December 2009.

17. **To facilitate timely budget closure the government will clear Treasury suspense accounts.** The suspense accounts on the books of the Treasury will be cleared to the extent that available information allows, in an effort to reduce transactions in suspense accounts to a strict minimum by end-February. This will allow timely closure of Treasury accounts, which, in the past, were not finalized until several years after the end of the budget year.

18. **The government will make every effort to improve SIGFIP as a key budget monitoring system, and to this end will implement the recommendations of the IMF PFM TA missions.** Following the audit of SIGFIP, and the two PFM TA missions in late 2008 focusing on the expenditure chain and budget execution, the government has requested follow-up technical assistance from the IMF, which is tentatively scheduled for February 2010. In the short term, the government intends to extend SIGFIP to cover all opearational line ministries. The government intends to improve SIGFIP by incorporating payroll expenditure and implementing the SIGFIP-ASTER interface (structural benchmark, end-July 2010).

19. **The compilation of draft budget reviews will continue.** The draft budget review law for 2008 will be forwarded to the Audit Court by end-December 2009 and the one for 2009 by end-September 2010.

20. **To improve its cash management, the government has conducted a census of all government accounts, including of public institutions and agencies, with a view to setting up a strategy to establish a single Treasury account**. This was carried out by the Financial Audit Inspectorate (*IGF*) in 2006 and will be updated. All administration, public institution and agency accounts, including their bank accounts, will be listed. The list will be exhaustive. It will include for each account the number, name of the holder, and the balance as at December 31, 2008 and 2009 (structural benchmark, July 2010). To ensure that the census is comprehensive, the government will ask ministries and public institutions and agencies for a list of accounts and permission for their banks to provide the necessary information to the Treasury. This census is a significant step toward establishing a single Treasury account, which is an essential tool for improving daily liquidity management of the central government.

Tax Administration

21. **The strong performance of the Senegalese tax system must be preserved.** The resolution of the government's payment delays and transfer of direct tax collection from the Treasury to the DGID should strengthen revenue collection. While revenues have come under pressure mainly because of the financial crisis, the tax administration authority will intensify its revenue collection efforts.

22. **Following the analysis of tax expenditures, the government will implement the following measures, with the aim of incorporating the first changes in the 2011 budget.**

(a) Establish an action plan designed to eliminate ineffective and/or inefficient tax expenditures with a significant budgetary cost. The study of tax expenditures aimed at providing a basis for enhancing the fairness, performance, and integrity of the tax system. Taking into account costs and benefits, the action plan will identify the key measures that could be eliminated and will review the legislative or regulatory amendments required for their abolition (structural benchmark, March 2010).

(b) Beginning January 1, 2010, carry out an ex ante impact assessment prior to any adoption of new tax expenditures. The aim is for the central government to establish a measure's effectiveness and efficiency prospectively, prior to adoption, and to not adopt the tax expenditure otherwise. This is essential to achieve the rationalization referred to in (a).

(c) By October 15, 2010, incorporate into one single document the general tax code and all legislation governing domestic taxation. The study of tax expenditures has shown that they are many and various and dispersed among several laws contained in different documents. In the interest of simplicity and effectiveness, it is advisable to consolidate all rules and regulations pertaining to domestic taxation into one single document (structural benchmark, October 31, 2010).

Energy Sector

23. **Following the surge in oil prices between 2005 and 2008, and the resulting financial impact on SENELEC, major reforms were initiated by the government in collaboration with donors.** In 2008, the authorities adopted a letter of development policy for the energy sector, designed to ensure a quality energy supply at lowest cost. The reform of the energy sector is supported by a range of donors, specifically, the World Bank and the Agence Française de Développement (AFD). This letter focused on the financial rehabilitation of the electricity sector, the institutional reform of SENELEC in the medium term, and the strengthening of governance. The sector reform plan had identified a financing requirement in the amount of CFAF 109 billion. The government participated in 2007 in the amount of CFAF 65 billion and the World Bank and AFD disbursed an initial tranche in the amount of CFAF 37 billion in 2008 in the form of budgetary assistance, of which CFAF 15 billion remains to be disbursed (CFAF 6 billion in additional recapitalization, and CFAF 9 billion in subordinated equity loans).

24. **Despite ongoing reforms in the energy sector, which are critical to raise Senegal's growth prospects, the situation remains very challenging.** Frequent electricity outages in August 2009 due to SENELEC's strained cash-flow situation led to breakdowns in electricity production. In early September 2009, the World Bank and the AFD sent an emergency mission to assess the situation. The mission and the government identified several reasons explaining the situation that arose in August, specifically, (i) technical faults (GTI, Kounoune, TAG2, TAG3) that greatly increased the costs of production; (ii) a recurrent pricing mismatch (as well as a government compensation for 2008 which had not been paid in full); (iii) commercial and operational performance below budget expectations; (iv) significant constraints relating to fuel supplies; (v) delays in implementing a policy to manage demand; (vi) stocks of arrears and debt servicing that place a heavy burden on cash flow; and (vii) continued cash flow problems and insufficient internal warning systems reflecting persistent weaknesses in the company's governance framework. These problems have slowed the rate of SENELEC's financial stabilization despite the fall in the level of arrears from approximately CFAF 100 billion at end-

December 2008 to CFAF 70 billion at end-September 2009, comprising: CFAF 44 billion with central government, including CFAF 12 billion in VAT suspended and not due; as well as CFAF 30 billion with its private suppliers and creditors.

25. **The government, in cooperation with the World Bank and the AFD, reviewed various reform scenarios and options.** The scenario that the government has chosen encompasses a comprehensive and consistent set of measures including the following:

(a) the restructuring of SENELEC's short-term debt;

(b) implementation of the action plan to reduce nontechnical losses (improving performance) and costs (implementation of the cost reduction plan);

(c) improvement of business performance;

(d) prosecution of fraud;

(e) assessment of fuel supply and human resource management functions;

(f) the updating if necessary and implementation of the recommendations of the audit on financial and accounting procedures;

(g) the resolution of the problem relating to the private energy supplier GTI through the return to service of the power station and the revision of the contract, with support from financial, legal and technical assistance;

(h) the implementation of a detailed action plan to meet the conditions of the second tranches of budget support from the World Bank and the AFD relating to the restructuring of the sector;

(i) a tariff adjustment will by carried out by no later than April 1, 2010 in addition to other measures if necessary and in such a way as to avoid having a significant impact on vulnerable segments of the population;

(j) Quarterly price adjustments will be made, if necessary, in order to reflect variations in the costs of production or purchase of energy.

26. **The government, in agreement with the World Bank and AFD, is aware that the restoration of SENELEC's long-term financial stability requires additional measures.** The government has decided on the following measures: (i) a debt-crossing agreement (*convention de dette croisée*) between the government and SENELEC; (ii) the rescheduling of on-lent debt (*dette rétrocédée*) of CFAF 17 billion and suspended VAT set at CFAF 12 billion over 60 months; (iii) an exemption from the VAT on new investments pursuant to the 2007-25 law; (iv) payment of the balance of CFAF 36 billion with respect to the 2008 compensation, and a

commitment to make appropriate provision in the 2011 and 2012 budget, allowing SENELEC to have access to its funds, specifically, CFAF 20 billion in 2010 and CFAF 16 billion in 2011, through the financial system. However, if warranted by exceptional circumstances, the government commits to taking appropriate and immediate steps to ensure the financial viability of the sector through a tariff adjustment or any other measure.

27. **In conclusion, the program is a coherent framework, aiming to enhance the subsector's efficiency and financial sustainability in the short, medium, and long term.** The envisaged program should help, among other things, to reduce quasi-fiscal risks in a credible and sustainable manner, in particular by providing regular tax payments by SENELEC to the government. It will also provide for the completion of the unbundling of SENELEC's activities (production, transportation, and distribution) and the increase in participation by the local and foreign private sector, consumers and workers in the capital of SENELEC, in accordance with the Letter of Development Policy for the sector as adopted by the government of Senegal.

Financial Sector Reforms

28. **The government recognizes that the financial sector is experiencing difficulties linked to domestic factors as well as the global crisis.** Nonperforming loans have increased and several banks continue to not meet selected prudential regulations. Against this background, the authorities are determined to make every effort to maintain stability in the financial sector. In particular, they undertake to:

(a) Continue to monitor closely, as part of their normal duties, solvency and liquidity in the banking sector, including by analyzing bank assets and liabilities, the nature and concentration of financing sources, liquidity relationships with parent companies or establishments from the same group abroad, and overall liquidity. They will also intensify exchanges with the WAEMU authorities and supervisors from foreign institutions with a presence in Senegal;

(b) Focus on macro-financial risks arising from financing linkages between the government, private sector, and financial system. Major banks will undergo regular stress tests. Consultations with the government and banks will be intensified to anticipate financing and cash requirements of the government and private sector;

(c) Closely monitor, in consultation with the central bank, the entry into force of the new minimum capital rules by end-2010;

(d) Further strengthen capacity and resources of the directorate in charge of regulation and supervision of microfinance institutions within the Ministry of Economy and Finance;

(e) Accelerate implementation of the recommendations of the Financial Sector Assessment Program (FSAP), jointly with WAEMU authorities. In this context, the authorities will consolidate various reform initiatives and plans and prepare a consolidated action plan for Senegal by end-March 2010 (new structural benchmark). The action plan will take stock of progress since the 2004 national FSAP update and the 2007 regional FSAP. The action plan will determine priorities, assign key responsibilities, and include an indicative timetable for reform. Its coverage will be broad, and include measures for the banking sector, insurance sector, microfinance institutions, and other financial intermediaries, cash flow management, the legal environment, and access to financial services.

29. **The government will continue to improve the institutional, legal, and operational environment for private sector financing** to enhance household access to credit and financial intermediation. The following initiatives will be introduced:

(a) Implementation of an action plan to increase the rate of bank penetration to 20 percent by end-2012 through, *inter alia*, promotion of noncash means of payment by the government;

(b) Establishment of a supportive legal framework for credit information bureaus;

(c) Finalization of legislation governing venture capital to promote financing of start-ups and growth of innovative small- and medium-sized enterprises.

Developing the private sector and improving governance

30. **Raising growth requires fast implementation of the Accelerated Growth Strategy (AGS).** The government is determined to accelerate the momentum to improve the business environment and reach international standards. Senegal's position in the World Bank's Doing Business Indicators has fallen. Key areas for improvement include improving contract enforcement, reducing delays in transferring property rights, modernizing labor legislation, and simplifying customs procedures and access to finance. The government specifically commits to achieve the following as soon as possible:

(a) Improved efficiency in the commercial justice system, by providing courts with the resources required for the expeditious handling of economic disputes and through implementation of administrative measures already identified;

(b) Reduced delays in the transfer of property rights as specified in office memoranda issued in 2008, reduction in the cost of such transfers, and adoption and effective implementation of the circular from the Prime Minister regarding reductions in the time it takes to issue construction permits and hook up water, sanitation, electricity, and telephones;

(c) Extension of possibilities for renewing fixed-term labor contracts;

(d) Holding the second national forum on credit by end-March 2010, followed by implementation of its recommendations according to a timetable to be agreed.

31. **The government is also establishing various measures to improve governance as follows**:

(a) by the end of the first quarter of 2010, finalizing legislation on government property and real estate: (i) the law on real estate ownership and its implementation decree; (ii) updating of pricing scales for government-owned property;

(b) strengthening the Audit Court by providing it with the appropriate level of resources and promoting the training of judges with the help of donors;

(c) making sufficient sources of financing available for the procurement regulatory agency (ARMP).

IV. PROGRAM MONITORING

32. Quantitative assessment (performance) criteria (for end-December 2009 and end-June 2010) and quantitative indicators (for end-March 2010) were set to monitor program implementation in 2009-10 (see Table 1 below). Assessing progress and implementation of energy sector reform will be a focus of program reviews. The government and IMF staff also agreed on the structural benchmarks listed in Table 2 below. It is expected that the fifth PSI review, third ESF review and the next Article IV consultation will be concluded by May 28, 2010, and the sixth and last PSI review will take place by end-October 2010.

Table 1 of MEFP. Quantitative Assessment Criteria (Performance Criteria) and Indicative Targets for 2009-10 1/

(CFAF billions, unless otherwise specified)

	December 31, 2009		March 31, 2010	June 30, 2010
	Existing	Proposed		
Assessment (performance) criteria				
Floor on the basic fiscal balance 2/	-119	-119	-30	-59
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	80 5/	90 5/	90 5/	90 5/
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0	0
Ceiling on the amount of the float (*depenses liquidees non payees par le Tresor*) 6/	45	45	45	45
Indicative target				
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	20	20	20

1/ Indicative targets for March 2010, except for the assessment (performance) criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC and MDRI spending, and payment of extrabudgetary spending and agency debt identified in the July 2009 audit and included in the first supplementary budget of 2010. Cumulative since the beginning of the year. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ Excluding government or government-guaranteed CFAF borrowing from financial institutions within the WAEMU and external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

4/ Monitored on a continuous basis.

5/ Cumulative since approval of second PSI review. The amount of up to CFAF 90 billion is to finance exclusively the Dakar-Diamniadio toll highway project.

6/ Defined as all expenditure for which a bill has been received and recognized (*dépense liquidée*) but not yet paid by the Treasury.

Table 2 of the MEFP: Structural Benchmarks, 2009–10

Policy Measures	MEFP	Implementation date	Macroeconomic Rationale
1. Stop issuing 2009 payment orders.	15	December 31, 2009	Improve transparency of budget execution and prevent recurrence of past budgetary slippages.
2. Issue a press release summarizing the results of the audit of extrabudgetary commitments and agency debt, the government's strategy for settling payments in the first supplementary budget for 2010 submitted to parliament no later than May 15, 2010, and describing the settlement procedures.	10	January 31, 2010	Continue the normalization of financial relations with the private sector in a transparent fashion.
3. Draw up an action plan to suppress tax expenditures with a significant budgetary impact that are ineffective and/or inefficient, with the aim of incorporating the first changes in the 2011 budget.	21	March 31, 2010	Enhance the transparency of the tax system and increase revenues.
4. Prepare a consolidated action plan for implementing the FSAP recommendations.	27	March 31, 2010	Reduce the vulnerability and strengthen the development of the financial sector.
5. Submit to parliament a supplementary budget for 2010 that includes specific entries/items authorizing the Ministry of Finance to settle in 2010 the extrabudgetary arrears and public institution and agency debt identified in the July 2009 audit that have not yet been included in a budget. Any debt settlement not requiring a budget entry will be presented in an annex to the supplementary budget.	10	May 15, 2010	Complete the normalization of financial relations with the private sector.
6. Improve SIGFIP by including payroll expenditure and implementing the SIGFIP-ASTER interface.	17	July 31, 2010	Strengthen the monitoring of budget execution.
7. Conduct a census of all the accounts held by general government institutions, and include for each account the number, name of the holder, and the balance as of December 31, 2008 and 2009, with a view to adopting a strategy to establish a single Treasury account.	19	July 31, 2010	Improve the management of cash flows, as well as the transparency of operations.
8. Complete payment of at least 50 percent of extrabudgetary commitments and public institution and agency debt identified in the July 2009 audit according to the modalities of the strategy announced by the government in January.	10	September 30, 2010	Complete the normalization of financial relations with the private sector and improve the business climate.
9. Incorporate in a single document the general tax code and all legislation governing domestic taxation.	21	October 15, 2010	Further simplify the tax system.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, December 4, 2009

1. This technical memorandum of understanding (TMU) defines the quantitative assessment (performance) criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2009. The quantitative program targets will also serve as performance criteria under the ESF. The TMU also establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

I. PROGRAM CONDITIONALITY

2. The quantitative assessment (performance) criteria for June 30, 2009 and December 31, 2009 and the quantitative indicative targets for September 30, 2009, are shown in Table 1. The prior actions and structural benchmarks established under the program are presented in Table 2.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government

3. 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 a separate legal personality (e.g., public universities and hospitals).

B. Basic Fiscal Balance (Program Definition)

Definition

4. The basic fiscal balance (program definition) is the difference between the government's budgetary revenue and total expenditure and net lending, excluding externally-financed capital expenditure (financed by donors), drawings on on-lent loans (except on-lent loans to the energy sector financed through donor budget support), expenditure funded with HIPC- and MDRI-related resources, and expenditure related to the settlement of agency debt and extrabudgetary arrears identified in the July 2009 audit and included in the first supplementary budget for 2010. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses prises en charge par le*

Trésor). The assessment (performance) criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

Example

5. The floor for the basic balance (program definition) as at June 30, 2010 is minus CFAF 59 billion. It is calculated as the difference between budgetary revenue (CFAF 621 billion) and total expenditure and net lending (CFAF 851.5 billion), excluding externally financed capital expenditure (CFAF 136.5 billion), drawings on on-lent loans (CFAF 5 billion), and expenditure funded with HIPC- and MDRI-related resources CFAF 30 billion).

Reporting requirements

6. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) and its components with a lag of no more than 30 days. Data on revenues and expenditure that are included in the calculation of the basic fiscal balance, and on expenditure financed with HIPC- and MDRI-related resources, 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 not later than two months after the reporting of the provisional data.

C. Budgetary Float

DefinitionThe budgetary float (*instances de paiement*) is defined as the outstanding stock of government expenditure for which bills have been received and validated but not yet paid by the Treasury (the difference between *dépenses liquidées* and *dépenses payées)*. The assessment (performance) criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

7. The authorities will report to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditures (*dépenses engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payées*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

D. Spending Undertaken Outside of Simplified and Normal Procedures

8. This criterion is applied on a continuous basis to any procedure other than simplified and normal procedures to execute spending. It only excludes spending undertaken on the basis of an advance decree for absolute urgency and need in the national interest, based on Article 12 of the Organic Budget Law. Such spending requires signatures by the President and Prime Minister. The criterion is monitored effective the time of the second PSI review.

9. The authorities will report to Fund staff on a monthly basis and with a maximum delay of 30 days any such procedure, together with the SIGFIP table defined in paragraph 8.

E. Government External Payment Arrears

Definition

10. External payment arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 13 is applicable here. The assessment (performance) criterion on external payment arrears will be monitored on a continuous basis.

Reporting requirements

11. The authorities will promptly report to Fund staff any accumulation in external payment arrears.

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

Definition

12. This assessment (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), adopted August 24, 2000, but also to commitments contracted or guaranteed by the government for which funds have not been received. The criterion does not apply to:

(i) CFAF debt contracted or guaranteed by the government with WAEMU residents;

(ii) CFAF debt initially contracted or guaranteed by the government with WAEMU residents subsequently acquired by nonresidents;

(iii) CFAF government or government-guaranteed debt where the agreement is between the government and a resident WAEMU entity and there is no ensuing contractual obligation between the government and a nonresident entity, regardless of whether the resident WAEMU entity resells the debt to a nonresident;

(iv) debt rescheduling transactions of debt existing at the time of the approval of the PSI; and

(v) external debt contracted by the airport project company (AIDB) to finance construction of the new Dakar Airport.

13. This criterion is measured on a cumulative basis since the approval of the second program review and applies continuously. The ceiling is raised to accommodate CFAF 90 billion to finance exclusively the Dakar-Diamniadio toll highway project. No adjuster will apply to this criterion.

14. For purposes of this assessment (performance) criterion, government is understood to include the government as defined in paragraph 3 above, as well as public institutions 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, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

15. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. 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.

Reporting requirements

16. 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. Public Sector Contracts Signed by Single Tender

Definition

17. Public sector contracts are administrative contracts, drawn up and entered into by government entities subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered single-tender contracts when the contracting agent signs the contract with the chosen contractor without competitive tender or award. The quarterly indicative target will apply to public sector contracts examined by the *Direction Centrale des Marchés Publics* (DCMP).

Reporting requirements

18. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total value of contracts signed by all ministries and agencies and the total value of all single-tender contracts signed by these ministries and agencies.

III. Additional Information for Program Monitoring

19. The authorities will report to Fund staff the following, with the maximum time lags indicated:

(a) Effective immediately: any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program;

(b) With a maximum lag of 30 days, preliminary data on:

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investment Directorate (DDI) on execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts (*balances de compte*);
- The provisional balance of the Treasury accounts; and

- A reconciliation table between the SIGFIP table and the Treasury accounts, between the Treasury accounts and the fiscal reporting table (TOFE) for revenues, and between the Treasury accounts and the fiscal reporting table (TOFE) for total expenditure and net lending and between the TOFE and the net government position (NGP), on a quarterly basis.

(c) Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than one month after the reporting of provisional data.

20. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on current nonwage noninterest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, with a lag of no more than 30 days. The data will be drawn from preliminary consolidated treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than one month after the reporting of provisional data.

21. The government will report to Fund staff:

- The monthly balance sheet of the Central Bank, with a maximum lag of one month;
- The consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a quarterly basis, with a maximum lag of two months;
- The lending and deposit interest rates of commercial banks, on a monthly basis; and
- Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* (*Survey of Credit Institutions in Relation to the Prudential Framework*), on a quarterly basis.

22. The government will update monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastructures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/462
FOR IMMEDIATE RELEASE
December 16, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review Under Senegal's ESF Arrangement, Approves US$51 Million Disbursement and Completes Fourth Review of PSI

The Executive Board of the International Monetary Fund (IMF) completed the second review of Senegal's performance under an economic program supported by an Exogenous Shock Facility (ESF) arrangement. The approval enables Senegal to draw an amount equivalent to SDR 32.36 million (about US$51 million), bringing total disbursements under the ESF arrangement to SDR 88.99 million (about US$141 million). The Board's decision was taken on a lapse of time basis.[1]

The ESF for Senegal was approved on December 19, 2008 (see Press Release No. 08/334) to help finance the balance-of-payments impact of higher food and energy prices. On June 19 2009, the Executive Board approved a financial increase under the ESF by SDR 72.81 million (about US$115 million) to SDR 121.35 million (about US$192 million) and an extension from 12 to 18 months to help finance the balance-of-payments impact of the global economic crisis (See Press Release No. 09/223).

The Board has also completed the fourth review under the Policy Support Instrument (PSI). The three-year PSI for Senegal was approved on November 2, 2007 (see Press Release No. 07/246) to support the country's economic reform efforts. It is aimed at consolidating macroeconomic stability, increasing the country's growth potential, and reducing poverty.

The program focuses on maintaining a sound fiscal policy stance and enhancing fiscal governance and transparency. It also includes structural measures to support the private sector and increase the financial sector's contribution to growth.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions. The Board's decision will become effective on December 22, 2009.

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