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Senegal: Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Staff Report; Informational Annex; Press Release; and Statement by the Executive Director for Senegal

In the context of the third review under the Policy Support Instrument and request for modification of assessment criteria for Senegal, the following documents have been released and are included in this package:

- The staff report for the third review under the Policy Support Instrument and request for modification of assessment criteria, prepared by a staff team of the IMF, following discussions that ended on May 15, 2012 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 June 26, 2012. 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.
- An Informational Annex
- A Press Release on the completion of the review
- A statement by the Executive Director for Senegal

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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SENEGAL

Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria

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

Approved by Roger Nord and Thomas Dorsey

June 26, 2012

Program discussions. Held in Dakar May 2–15, 2012. The team comprised Mr. Joly (head), Mr. Kireyev, Mr. Mpatswe (all AFR), Ms. Shabunina (FAD), Mr. Jewell (SPR), Ms. Fichera (resident representative), and Mr. Ba (resident representative office). Messrs. Assimaidou and Sembene (OED) participated in the discussions. The team met with President Sall, Prime Minister Mbaye, Minister of Economy and Finance Kane, Minister of Energy and Mines Ndiaye, National Director of the BCEAO Camara, and other senior officials.

Third program review under the Policy Support Instrument (PSI). Program implementation slowed significantly ahead of the presidential elections. All end-December 2011 quantitative assessment criteria were met, but for the one on the overall fiscal balance, which was missed by a small margin. Some progress was achieved in structural reforms but a number of benchmarks were missed. The new authorities confirmed their commitment to the objectives of the program and presented their policy intentions in the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP). Staff recommends completion of the review and supports the waiver for nonobservance of the end-December 2011 assessment criterion on the overall fiscal deficit and the authorities' request for modification of the end-June and end-December 2012 assessment criteria.

Outreach. The mission coordinated closely with donors and held a number of outreach meetings with the business community, CSOs, and media.

Fund relations. The Executive Board approved the PSI on December 3, 2010 and concluded the last Article IV consultation in May 2010. At the request of the authorities, the 2012 Article IV consultation will be conducted at the time of the next PSI review.

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Abbreviations

AC	Assessment criterion
AFD	French development agency
AIBD	Airport project company
ARMP	Procurement regulatory authority
ASTER	Expenditure accounting system
BCEAO	Central Bank of West African States
CIRR	Commercial Interest Reference Rate
COSEC	Senegalese shippers' council
CPIA	Country Policy and Institutional Assessment
CFAF	CFA franc
DCMP	Central public procurement directorate
DSA	Debt Sustainability Analysis
DGID	Taxes, land, and property general directorate
DGD	Customs directorate
DPES	Document of economic and social policies
FSE	Energy sector support fund
FSIPP	Specific surcharge on petroleum products
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
ICS	Phosphoric acid production company
IGF	Office of the inspector general of finance
MCA	Millennium Challenge Account
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
NINEA	Unique taxpayer identification number
NFA	Net Foreign Assets
NPV	Net Present Value
NPL	Nonperforming Loan
PEFA	Public Expenditure and Fiscal Accountability
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
REER	Real Effective Exchange Rate
SAR	Oil refinery company
SDR	Special Drawing Rights
SENELEC	Government-owned electricity company
SIGFIP	Integrated public financial management system
SSA	Sub-Saharan Africa
TMU	Technical Memorandum of Understanding
TOFE	Government financial operations table
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union

Executive Summary

After a tense campaign, the presidential elections led to a peaceful administration changeover. Mr. Macky Sall was elected president with a large majority and appointed a new coalition government in April 2012. The current election cycle will be over once the legislative elections scheduled for early July have taken place, but the political tension of early 2012 has already largely eased. The new authorities confirmed their commitment to the main objectives of the program and their willingness to pursue its implementation.

Growth is projected to rebound and inflation to decrease in 2012. After a substantial slowdown in 2011 because of the drought in the Sahel, growth would reach 3.9 percent driven by higher public investment in infrastructure and a recovery of agricultural production. Inflation should remain moderate in 2012, at about 2.5 percent.

Program implementation slowed significantly ahead of the presidential elections. The 2011 fiscal deficit target was missed by a small margin because of current expenditure overruns and tax revenue shortfalls, and arrears to suppliers accumulated. All other quantitative assessment criteria were met. While some progress was made in structural reforms, a number of program benchmarks were missed or implemented with delays.

A large fiscal gap could emerge in 2012 in the absence of corrective actions. This gap reflects the impact on the budget of exogenous shocks (the drought in the Sahel and the overall macroeconomic slowdown), the higher cost of electricity subsidies, and measures taken by the authorities to stabilize food and petroleum product prices.

Keeping the program on track will require substantial efforts to control the fiscal deficit in 2012 and reduce it in the medium term. A higher deficit target for 2012 (6.4 percent of GDP) accommodates the impact of exogenous factors. This new target will still require a large adjustment, which will be achieved through a mix of current expenditure cuts and a deferral of certain investment projects. Although staff would have preferred upfront action to reduce the large energy subsidies, it welcomes the authorities' commitment to replacing general price subsidies in the near future with alternative schemes better targeting the poor. Staff also welcomes the new authorities' commitment to reducing the fiscal deficit below 5 percent of GDP in 2013 and 4 percent by 2015, which is necessary to keep debt on a sustainable path and reconstitute margins for fiscal maneuver.

Acceleration of structural reform implementation is desirable. Comprehensive tax reform and reform of the energy sector are key objectives for 2012. Other priority reform areas include public financial and debt management, tax and customs administration, the financial sector, and other measures aimed at removing bottlenecks to growth and improving the business climate and governance. The missed structural benchmarks of early 2012 have been reprogrammed.

Risks to the program remain substantial. Continued weakness in the global environment, particularly in Europe; higher oil prices; and persistent instability in neighbor countries are the main external risks to the program. The main domestic risk is people's high expectations from the new government on creating jobs and reducing the cost of living, which could complicate medium-term fiscal consolidation.

I. Macroeconomic Performance and Risks

1. **The new administration that emerged from the recent presidential election is determined to pursue reforms with the support of the international community.** After a tense campaign, the second round of the election was eventually free, fair, and peaceful and Mr. Macky Sall, a former prime minister, was elected president by a large majority. A coalition government was appointed in April 2012 with the new prime minister and finance minister both respected former bankers. The new authorities have repeatedly stated their firm intention to reform the state, improve governance, preserve fiscal sustainability, and continue with IMF support under the PSI. The prime minister is expected to make a comprehensive and detailed policy statement to parliament after the legislative elections, scheduled for early July.

2. **Macroeconomic performance was affected by the drought in the Sahel in 2011; a weaker international environment will also weigh on growth in 2012.**

MEFP ¶¶4, 8–9

Cereal and groundnut production declined by about a third in 2011, limiting GDP growth to 2.6 percent, compared to 4 percent in the program. Inflation averaged 3.4 percent, driven by high food and transport prices. Despite a large increase in credit to the economy driven partly by higher financing of fuel imports for power generation, money growth was moderate at about 7 percent. The current account deficit widened to 6.4 percent of GDP, mainly because of high prices for imported food and oil, and the balance of payments was in deficit. In 2012, growth is projected to increase to 3.9 percent, reflecting higher public investment in infrastructure and a rebound in agricultural production (assuming normal rainfall); excluding agriculture, activity would grow by a modest 3.2 percent, because of an unfavorable external environment (Europe and Mali). Inflation declined to below 1 percent in May year-on-year and is expected to remain moderate. The current account deficit is projected to increase further; this would reflect higher imports of food (related to the drought) and capital goods, and weak export demand.

3. **Risks to program implementation have increased.** Continued weakness in the global environment, particularly in Europe, higher oil prices and persistent instability in neighboring countries are the main external risks to the program. The main domestic risk is people's high expectations from the new government on creating jobs and reducing the cost of living, which could complicate the much-needed medium-term fiscal consolidation.

II. Program Performance

MEFP ¶5

4. **Program implementation slowed significantly ahead of presidential elections.** All end-2011 quantitative assessment criteria were met, but for the one on the overall fiscal balance, which was missed by CFAF 28 billion (0.4 percent of GDP). This deviation reflected, to a large extent, administrative weaknesses which led to expenditure overruns. The largest overrun was on interest payments, which were underestimated by CFAF 20 billion. The creation of the new debt directorate is expected to lead to more accurate forecasts and monitoring of public debt developments in the future and should

help avoid such slippages. While progress was made in certain areas, a number of reform measures were not implemented as expected (Text Table 1). The delays reflect either administrative issues (e.g., finding adequate offices for the new debt directorate) or more substantive ones. For instance, the survey of agencies and other public entities made little progress until the new president, who had campaigned on their rationalization, gave it a new impetus. The new authorities also asked for more time to adopt an action plan on subsidies to electricity consumers, a politically sensitive issue.

Text Table 1. Senegal: Structural Measures—Third PSI Review

Measures	Implementation Date	Status	Macroeconomic Significance
Introduce a unique taxpayer identification number in customs operations	January 1, 2012	Done	Modernize tax system
Start the new debt entity	January 15, 2012	Partly done; debt unit expected to be fully operational by end-June 2012	Improve debt management
Finalize a survey of agencies and other public entities	January 31, 2012	Done with delay (May 2012)	Strengthen PFM
Finalize the study of the resources used in the microfinance sector and their impact to rationalize them	January 31, 2012	Done	Strengthen control and supervision of the microfinance sector
Prepare a project evaluation guide	March 31, 2012	Not done, rescheduled to end-2012	Improve investment planning
Conduct an initial audit of the use of the resources allocated to the extension of the highway three months after the start of the project and publish the report on the government's website	April 30, 2012	Not done, the construction has not yet started	Improve the transparency of infrastructure-related investments
Adopt an action plan on subsidies to electricity consumers	April 30, 2012	Not done, rescheduled to end-August 2012	Reform the energy sector

5. **Quantitative program targets for end-March 2012 were met, despite difficulty in mobilizing budget revenue and financing.** The economic slowdown (compared to program projections), political tensions, and the decision to reduce petroleum product taxation to stem price increases ahead of the elections all contributed to revenue underperformance. In addition, financing on the regional

MEFP ¶6

market was more difficult to obtain than expected. This combination of factors led to underexecution of expenditures and a further accumulation of arrears to suppliers by agencies (a phenomenon that started in late 2011).

6. **The new Document of Economic and Social Policies (the third PRSP) will be finalized in the next few months.** A draft document was validated by the previous government and other stakeholders. Although the previous PRS document was issued more than 18 months ago (November 2010), a slight delay in the preparation of the new PRSP is warranted, as the new government wishes to review and possibly update it before transmission to the Fund and the World Bank by end-October 2012.

MEFP ¶ 7

III. Policy Discussions

7. **The new authorities are firmly committed to keeping the program on track**. They emphasized that their reform plans were in line with the program's objectives of improving the tax system, strengthening public financial and debt management, and promoting private sector development and good governance. They acknowledged that program implementation had not been fully satisfactory in these areas since the previous review and needed to improve in the coming months. On the fiscal front, the authorities underscored their strong commitment to maintaining fiscal sustainability, which requires lowering the deficit to below 4 percent of GDP; they remain committed to achieving this target by 2015 (and a deficit below 5 percent of GDP in 2013). They were aware that keeping the fiscal deficit under control in 2012 would require substantial efforts and were eager to send strong signals to all stakeholders through cabinet approval of key measures in the fiscal and structural areas (below). The missed program benchmarks were also rescheduled.

A. Fiscal Policies in 2012

8. **The 2012 fiscal outlook is challenging, with a fiscal gap of 2.4 percent of GDP in the absence of corrective action.** The gap—defined as the deviation from the program deficit target—mostly reflects the impact on the budget of exogenous shocks (the drought in the Sahel and the weak macroeconomic environment) and the higher-than-expected cost of energy subsidies, which could reach 2 percent of GDP (Box 1). Absent any measures, the overall fiscal deficit would reach about 8 percent of GDP, a level inconsistent with debt sustainability and not financeable.

MEFP ¶¶12-15

Box 1. Senegal: Sources of the 2012 Fiscal Gap

The total fiscal gap is estimated at 2.4 percent of GDP, of which:

Exogenous factors account for about 0.8 percent of GDP, i.e., a third of the fiscal gap. They include:

Estimated fiscal losses	Percent of GDP	CFAF billions
Lower growth and revenue base	0.3	20
Petroleum prices stabilization	0.5	35
Drought-related spending (net of grants)	0.6	46
Increase in SENELEC compensation	0.9	65
Food prices stabilization	0.1	8
Total	2.4	174

- The impact of lower-than-expected growth in 2012, combined with a lower revenue base in 2011; and
- Unbudgeted drought-related expenditure, such as the provision of food to affected population, as well as seeds and fertilizers for the next agricultural campaign. They are estimated at CFAF 76 billion (1.1 percent of GDP), of which CFAF 30 billion would be financed by donor grants. The net impact on the fiscal gap would therefore be CFAF 46 billion.

Energy subsidies account for most of the rest of the fiscal gap:

- In February 2012, the authorities decided to reduce taxation to dampen the impact on consumers of higher international oil prices. At current WEO prices, this "tax stabilization" of domestic prices is estimated to reduce revenue from petroleum product taxation by CFAF 35 billion (or 0.5 percent of GDP) compared to the program target.
- The compensation paid by the government to SENELEC for the electricity tariff gap is now estimated at about CFAF 105 billion, but only CFAF 40 billion was budgeted for this purpose in 2012. An additional CFAF 65 billion (0.9 percent of GDP) will therefore be needed absent any tariff adjustment.

In contrast, the budgetary impact of the new authorities' decision to reduce temporarily the price of three basic food staples (rice, sugar, cooking oil) is limited (0.1 percent of GDP).
The authorities indeed tried to target these subsidies as much as possible and announced that they would be temporary, which staff welcomed.

9. **The proposed revised fiscal deficit target for 2012 accommodates the impact of exogenous factors, but will require substantial expenditure control efforts**. With the fiscal deficit target for 2012 raised from 5.6 percent to 6.4 percent of GDP, an adjustment effort of 1.6 percent of GDP will be needed (Text Table 2). Staff urged considering a reduction of energy subsidies, given their large size (about 2 percent of GDP) and poor targeting. The authorities acknowledged that these subsidies were unsustainable, but argued they needed time to design alternative schemes better targeting the poor. The adjustment will therefore be achieved in 2012 through a mix of current expenditure cuts (0.4 percent of GDP) and a postponement of certain investment projects (1.2 percent of GDP). The cabinet adopted in June a supplementary budget for 2012 reflecting these understandings. To sustain savings on operating expenditures and more generally to rationalize government

MEFP ¶ 17-20

spending, the authorities intend to review a number of policies, with World Bank assistance in some areas (Box 2).

Box 2. Senegal: Expenditure Control and Rationalization

Short-term measures

- *Reduction of the size of the government*. The number of ministries has already been reduced from 37 to 25 and many ministerial offices and directorates have been eliminated or merged. The government also announced a streamlining of diplomatic representation abroad. The initial census of agencies and other public entities led to the elimination of nine agencies in May. The number of agencies will be further reduced after an audit of their purpose and performance.
- *Reduction of waste and abuse in the public service,* including in the use of mobile phones, cars, fuel and electricity, public housing, and leasing of offices. Improved procurement of goods and services is also targeted.
- *Reduction of other nonpriority current expenditure.* The above measures are unlikely to generate the needed savings in 2012 as they will take time to implement. The government has therefore identified nonpriority expenditures, which will be cut as needed.
- *Postponement of nonpriority investment projects*. The focus has been on projects (i) not yet started; and (ii) with a more limited impact on growth and poverty reduction.

Medium-term measures

- *Rationalization of subsidies and transfers to certain sectors and population groups*, to improve their targeting and efficiency. This includes in particular energy, food, and water subsidies.
- *Rationalization of expenditures in education, health and agriculture* with support from the World Bank, drawing on the 2011 Public Expenditure Review.

10. **The additional financing requirements for 2012 will be covered through new sources of funding.** Financing needs in 2012 have increased because of a higher fiscal deficit, the need to clear arrears to suppliers, and lower net financing from the regional market than earlier expected.[1] The financing gap is expected to be closed by a large concessional loan from France and the proceeds from a mobile phone license. The authorities' will continue relying predominantly on grants and concessional external financing.

MEFP ¶21

[1] Arrears to suppliers were estimated at CFAF 26 billion at end-2011 and increased to CFAF 39 billion at end-March 2012. More recent data indicate a significant decrease since end-March. These arrears are programmed to be cleared in 2012. The loan from France (see below) is expected to be used partly for this purpose.

Text Table 2. Senegal: Government and FSE Financial Operations, 2011-13

	Percent of GDP						
	Dec. 2011		2012			2013	
	Prog. EBS/11/176	Act.	Prog. EBS/11/176	Revised prog.	Diff.	Prog. EBS/11/176	Revised proj.
Total revenue and grants	22.6	22.4	23.4	23.4	0.0	23.3	23.3
Tax revenue	19.0	18.9	20.0	19.5	-0.5	20.0	19.2
of which : taxes on petroleum products	3.2	3.1	3.2	2.8	-0.4	3.2	3.6
FSE revenue	0.6	0.6	0.5	0.5	0.0	0.4	0.5
Other	3.0	2.9	2.9	3.4	0.5	2.9	3.6
Total expenditure and net lending	28.8	29.0	28.9	29.8	0.8	28.0	28.0
Current expenditure	17.4	18.1	16.3	17.3	0.9	15.7	16.4
of which: electricity subsidies	1.8	1.8	0.5	1.4	0.9	0.4	1.0
food subsidies	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Capital expenditure and net lending	11.4	11.0	12.6	12.5	-0.1	12.4	11.6
of which: drought-related spending	0.0	0.0	0.0	1.0	1.0	0.0	0.0
Overall fiscal balance	-6.2	-6.7	-5.6	-6.4	-0.8	-4.7	-4.7

B. Strengthening Tax Reforms, Public Financial Management, and Debt Management

11. **The new authorities confirmed their determination to proceed with the planned ambitious reform of the tax code.** Their commitment was illustrated by the discussion by the cabinet and subsequent publication in June of a note on the main objectives of the reform, which will make the tax system simpler, more transparent, and more efficient. The new tax code will be submitted to parliament by end-September 2012 (a structural benchmark), so that it can enter into force with the 2013 budget (Text Table 3). The authorities are also preparing a new customs code, which will be finalized by end-2012. The modernization of tax and customs administration will continue with technical assistance from FAD.

MEFP ¶22-24

12. **Improving public governance is a priority for the new government.** A number of measures have already been taken or are expected shortly in this area, such as the creation or reactivation of special courts to fight corruption and illicit enrichment; a census, followed by the commissioning of an audit of agencies, to prepare a rationalization plan by end-2012 (a structural benchmark); and the adoption by the cabinet of a draft law transposing the WAEMU directive on fiscal transparency (which requires, among other, a declaration of assets by high-level officials). With technical assistance from the World Bank, the authorities will finalize the guidelines for project evaluation (a missed benchmark rescheduled for end-2012) and intend to use them in the future for a systematic cost-benefit analysis of budget-financed projects. Progress has been made towards a single treasury account, although the survey of government accounts has been slower than expected; finalization of the process, in particular the closing of all unnecessary accounts, is expected by end-February 2013 (a structural benchmark).

MEFP ¶¶25-29

13. **A first medium-term debt management strategy will be ready for parliamentary discussion this fall**. This benchmark has been reprogrammed to end-September 2012 to take into account the delay in setting up the new public debt directorate. This new timeline however still

allows transmission to parliament together with the draft 2013 budget law. Discussion of the strategy by parliament together with medium-term fiscal projections should help foster ownership of policies aimed at preserving fiscal sustainability.

Text Table 3. Structural Measures: Fourth and Fifth PSI Reviews

Measures	MEFP §	Implementation Date	Benchmark for Review	Macroeconomic Significance
Adopt an action plan on subsidies to electricity consumers	31	August 31, 2012	4th	Reform the energy sector
Prepare a medium-term debt strategy	21	September 30, 2012	4th	Improve debt management
Finalize the new tax code and submit it to parliament	22	September 30, 2012	4th	Improve efficiency of the tax system
Prepare a plan for restructuring of public agencies and similar entities	27	December 31, 2012	5th	Reinforce PFM
Prepare a project evaluation guide	28	December 31, 2012	5th	Improve investment planning
Finalize the single treasury account	29	February 28, 2013	5th	Reinforce PFM

C. Promoting Private Sector Development

14. **The new authorities are committed to reforming the electricity sector.** Although the planned investments to increase production capacity in the short and medium term are being implemented (with some delays however), progress in restructuring SENELEC has been limited. The new authorities conducted a broad review of the existing energy sector reform plan ("Plan Takkal," which aimed at finding a permanent solution to power outages and high electricity prices) in May. They intend to address its identified weaknesses, such as the need to focus more on transportation and distribution. They proposed to reschedule for end-August 2012 the missed program benchmark on adopting an action plan on subsidies to electricity consumers (and then implementing it from the beginning of 2013) and the preparation of a plan for the operational and financial restructuring of SENELEC (for immediate implementation). The mission encouraged the authorities to preserve the reform momentum, given the criticality of the energy sector for growth.

MEFP ¶¶30-31

15. **Reform efforts in other areas will continue.** In the financial sector, the authorities intend to rationalize the resources dedicated to microfinance and establish private credit registries. To strengthen governance, the

MEFP ¶32

authorities plan to reinforce the competence and independence of the Audit Court (Cour des Comptes) and improve public land management.

IV. Program Monitoring and Next Article IV Consultation

16. **A number of changes are proposed to program monitoring.** The end-June and end-December 2012 fiscal deficit targets would be raised, as explained above, and the benchmarks not yet implemented would be reprogrammed. The adjustor on the ceiling on the fiscal deficit, if the amount of concessional financing deviates from its programmed level, would be made symmetric to ensure a lower deficit in the event of a shortfall in concessional financing. Finally, the proceeds from the 2011 eurobond could be used to finance the completion of existing sections of the highway, not only its extension to, and beyond, the new airport.

MEFP ¶33

17. **At the request of the authorities, the 2012 Article IV consultation will be conducted at the time of the next PSI review.** After the current electoral cycle is over, the authorities will be in a better position to take a longer-term perspective on economic policies.

V. Staff Appraisal

18. **Program implementation slowed significantly ahead of presidential elections**. The fiscal deficit target for 2011 was missed because of a combination of current expenditure overruns and tax revenue shortfalls; the latter continued in the first quarter of 2012 and arrears to suppliers accumulated. While some progress was made in the implementation of structural reforms, a number of program benchmarks were missed and the government interfered with domestic petroleum product pricing. Staff regrets the slippages, which partly reflect a stalemate in policy implementation in the tense period before the presidential elections.

19. **Staff welcomes the determination of the new government to pursue the implementation of the PSI-supported program.** The main objectives of the program—maintaining macroeconomic stability and fiscal sustainability; creating greater fiscal space through higher revenue; improving public financial management and governance; and promoting private sector development—are consistent with those of the new government. Senegal, however, is facing a difficult external environment, a resurgence of regional instability, and the impact of a severe drought on the population and the economy. These developments justify adjustments in the design of the program without calling into question its main priorities.

20. **Keeping the program on track will require substantial efforts to control the fiscal deficit in 2012 and reduce it in the medium term**. Absent any measures, a large fiscal gap would emerge and would raise the deficit to about 8 percent of GDP this year–clearly, an unsustainable level. This gap reflects a range of factors, but particularly the higher cost of energy subsidies, which will reach 2 percent of GDP in 2012. The higher deficit target for 2012 (6.4 percent of GDP) accommodates the impact of exogenous factors (the drought in the Sahel and the less favorable macroeconomic environment). This new target will still require a large adjustment, which the authorities plan to achieve through a mix of current expenditure cuts and a

deferral of certain investment projects. While staff would have preferred upfront action to reduce energy subsidies, it welcomes the authorities' commitment to replace general price subsidies in the near future by alternative schemes better targeting the poor. Staff also welcomes the new authorities' endorsement of targeting a fiscal deficit below 5 percent of GDP in 2013 and 4 percent by 2015, which is necessary to keep debt on a sustainable path and reconstitute fiscal buffers.

21. **Staff encourages the authorities to accelerate implementation of structural reforms**. Comprehensive tax reform and reform of the energy sector remain key priorities for 2012. Other priority reform areas include public financial and debt management, tax and customs administration, the financial sector, and other measures aimed at removing bottlenecks to growth and improving the business climate and governance. The missed benchmarks of early 2012 have been reprogrammed for the second half of 2012.

22. **Staff recommends completion of the third review** based on the strength of the new authorities' commitments. Staff supports a waiver for nonobservance of the end-December 2011 assessment criterion on the overall fiscal deficit because the deviation was small and corrective action is being taken to prevent its recurrence. Staff also supports the authorities' request for modification of the end-June and end-December 2012 assessment criteria.

Table 1. Senegal: Selected Economic and Financial Indicators, 2009–17

	2009	2010	2011		2012		2013	2014	2015	2016	2017
			EBS/ 11/176	Actual	EBS/ 11/176	Proj.			Proj.		
			(Annual percentage change)								
National income and prices											
GDP at constant prices	2.1	4.1	4.0	2.6	4.4	3.9	4.8	5.1	5.4	5.5	5.5
Of which: nonagriculture GDP	0.8	4.0	4.0	4.8	4.5	3.2	4.6	5.1	5.5	5.6	5.7
GDP deflator	-1.4	1.4	3.4	4.3	2.9	2.2	2.4	2.5	2.6	2.5	2.6
Consumer prices											
Annual average	-1.7	1.2	3.4	3.4	2.5	2.5	2.1	2.1	2.1	2.1	2.1
End of period	-3.4	4.3	2.7	2.7	2.3	2.2	2.1	2.1	2.1	2.1	2.1
External sector											
Exports, f.o.b. (CFA francs)	0.2	8.3	3.3	10.1	7.9	3.2	5.1	5.3	6.6	9.0	9.4
Imports, f.o.b. (CFA francs)	-22.4	3.8	9.1	11.5	9.4	9.0	1.0	4.0	3.9	7.7	8.4
Export volume	33.4	5.8	10.3	-2.1	4.1	0.4	5.5	5.8	6.1	6.1	6.1
Import volume	-2.6	-0.9	5.0	3.5	8.7	4.7	2.4	5.3	5.4	5.8	5.7
Terms of trade ("–" = deterioration)	6.4	-1.4	-5.7	4.6	0.8	-0.4	1.0	0.4	1.8	0.9	0.8
Nominal effective exchange rate	0.4	-4.5	…	1.4	…	…	…	…	…	…	…
Real effective exchange rate	-2.3	-6.2	…	1.1	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)										
Money and credit											
Net domestic assets	6.1	8.3	7.2	9.0	13.4	7.6	…	…	…	…	…
Domestic credit	6.8	10.9	11.3	10.3	12.9	7.0	…	…	…	…	…
Credit to the government (net)	4.2	4.0	5.5	-1.8	5.2	1.7	…	…	…	…	…
Credit to the economy (percentage growth)	3.6	10.4	8.9	18.6	12.4	5.6	…	…	…	…	…
			(Percent of GDP, unless otherwise indicated)								
Government financial operations											
Revenue	18.6	19.4	20.2	20.2	21.1	20.7	20.7	20.7	20.8	20.5	20.6
Grants	3.0	2.5	2.4	2.2	2.3	2.7	2.6	2.6	2.6	2.6	2.5
Total expenditure and net lending	26.7	27.1	28.8	29.0	28.9	29.8	28.0	27.6	27.3	26.9	26.8
Overall fiscal surplus (+) or deficit (–)											
Payment order basis, excluding grants	-7.9	-7.8	-8.6	-8.9	-7.8	-9.1	-7.3	-6.9	-6.5	-6.4	-6.2
Payment order basis, including grants	-4.8	-5.2	-6.2	-6.7	-5.6	-6.4	-4.7	-4.3	-3.9	-3.8	-3.7
Primary fiscal balance [1]	-4.1	-4.2	-5.1	-5.2	-4.1	-4.9	-3.2	-2.7	-2.4	-2.3	-2.1
Gross domestic investment	29.3	29.7	30.7	28.7	32.5	30.8	29.9	30.1	30.7	30.6	30.6
Government	10.1	11.6	10.9	10.5	12.7	12.6	11.6	11.7	12.1	11.9	11.8
Nongovernment	19.2	18.2	19.8	18.2	19.8	18.2	18.3	18.4	18.6	18.7	18.8
Gross domestic savings	12.4	14.2	13.0	12.2	14.3	12.8	13.9	14.7	15.8	16.4	16.9
Government	5.8	7.3	5.9	5.4	8.7	7.7	8.5	9.0	9.7	9.6	9.7
Nongovernment	6.6	6.9	7.1	6.8	5.6	5.1	5.4	5.7	6.1	6.8	7.3
Gross national savings	22.6	25.3	22.9	22.3	23.3	22.5	23.2	23.7	24.4	24.3	24.4
External current account balance											
Including current official transfers	-6.7	-4.4	-7.9	-6.4	-9.2	-8.3	-6.7	-6.4	-6.3	-6.3	-6.2
Excluding current official transfers	-7.5	-5.4	-8.8	-7.1	-10.1	-8.9	-7.2	-7.0	-6.9	-6.8	-6.8
Total public debt	34.2	35.7	38.4	40.8	40.5	44.9	46.5	47.5	48.0	48.3	48.3
Central government domestic debt	7.2	8.2	10.6	11.3	11.5	12.2	12.2	12.2	12.1	12.0	11.7
External public debt	26.9	27.5	27.8	29.5	28.9	32.6	34.3	35.3	35.9	36.3	36.6
External public debt service											
Percent of exports	5.0	5.7	12.5	13.8	7.3	7.4	7.6	6.7	7.5	7.2	6.9
Percent of government revenue	6.5	7.4	14.7	17.2	8.1	8.7	8.7	7.4	8.1	8.0	7.7
Gross domestic product (CFAF billions)	6,029	6,369	6,837	6,818	7,346	7,243	7,779	8,374	9,055	9,791	10,599

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

[1] Total revenue and grants minus total expenditure and net lending, excluding interest expenditure.

Table 2. Senegal: Balance of Payments, 2009–17

	2009	2010	2011		2012		2013	2014	2015	2016	2017
			EBS/ 11/176	Act.	EBS/ 11/176	Proj.			Proj.		
	(CFAF billions, unless otherwise indicated)										
Current account	-403	-281	-538	-435	-679	-601	-520	-537	-571	-612	-659
Balance on goods	-958	-951	-1,130	-1,075	-1,254	-1,241	-1,205	-1,237	-1,248	-1,325	-1,420
Exports, f.o.b.	990	1,072	1,122	1,180	1,211	1,218	1,280	1,347	1,437	1,567	1,714
Imports, f.o.b.	-1,948	-2,022	-2,252	-2,255	-2,465	-2,459	-2,485	-2,584	-2,684	-2,892	-3,134
Services and incomes (net)	-141	-98	-155	-134	-175	-138	-113	-121	-164	-146	-118
Credits	563	623	615	660	627	663	684	714	731	798	866
Debits	-704	-720	-770	-794	-802	-800	-797	-835	-895	-944	-984
Of which: interest on public debt	-27	-38	-49	-62	-62	-57	-64	-68	-64	-81	-88
Unrequited current transfers (net)	695	768	747	774	750	778	798	821	840	859	880
Private (net)	672	734	708	750	713	761	783	800	818	836	854
Public (net)	23	33	39	24	37	18	15	20	22	24	26
Of which: budgetary grants	46	61	37	37	32	32	34	37	40	43	46
Capital and financial account	480	392	649	365	697	582	500	550	612	660	724
Capital account	146	151	156	119	226	183	273	278	239	211	223
Private capital transfers	8	8	11	6	12	5	5	4	3	2	1
Project grants	136	140	125	113	134	164	170	183	198	209	222
Debt cancellation and other transfers [1]	2	2	20	0	80	14	98	92	39	0	0
Financial account	334	241	493	246	471	399	228	272	374	449	501
Direct investment	119	131	129	133	122	184	138	142	146	148	150
Portfolio investment	8	42	57	272	60	119	131	119	123	132	140
Other investment	207	69	307	-159	289	95	-42	11	105	168	212
Public sector (net)	305	139	259	224	197	283	191	270	282	296	316
Of which: disbursements	343	190	434	399	290	372	282	340	360	373	392
program loans	55	30	38	40	25	107	41	44	47	51	55
project loans	107	160	172	135	221	221	242	255	267	273	284
other	181	0	224	224	44	44	0	42	45	49	53
Of which: SDR allocation	95	0	0	0	0	0	0	0	0	0	0
amortization	-50	-53	-175	-175	-92	-89	-91	-71	-79	-79	-81
Private sector (net)	-24	-130	48	-329	91	-188	-232	-258	-177	-128	-104
Errors and omissions	-74	59	0	-53	0	0	0	0	0	0	0
Overall balance	77	111	111	-70	18	-19	-19	13	41	48	66
Financing	-77	-111	-111	70	-18	19	19	-13	-41	-48	-65
Net foreign assets (BCEAO)	-73	-9	-126	8	-33	0	0	-33	-62	-69	-88
Net use of IMF resources	-47	-24	2	2	3	3	3	9	19	20	19
Purchases/disbursements	-47	-24	0	0	0	0	0	0	0	0	0
Repurchases/repayments	0	0	2	2	3	3	3	9	19	20	19
Other	-26	15	-128	7	-36	-3	-3	-42	-81	-90	-107
Deposit money banks	-24	-120	-2	49	-2	1	1	2	2	3	3
Exceptional financing (debt relief)	20	19	17	13	18	18	18	18	19	19	19
Memorandum items:											
Current account balance											
Including current official transfers (percent of GDP)	-6.7	-4.4	-7.9	-6.4	-9.2	-8.3	-6.7	-6.4	-6.3	-6.3	-6.2
Excluding current official transfers (percent of GDP)	-7.5	-5.4	-8.8	-7.1	-10.1	-8.9	-7.2	-7.0	-6.9	-6.8	-6.8
Gross official reserves (imputed reserves, billions of US$)	2.1	2.0	2.4	2.0	2.5	1.9	1.9	2.0	2.1	2.2	2.4
(percent of broad money)	43.2	39.7	39.3	36.7	35.3	34.2	31.6	30.1	29.4	28.8	28.6
WAEMU gross official reserves (billions of US$)	13.9	13.6	…	15.0	…	…	…	…	…	…	…
(percent of broad money)	58.4	56.1	…	56.2	…	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	6.2	6.3	…	6.2	…	…	…	…	…	…	…
Gross domestic product	6,029	6,369	6,837	6,818	7,346	7,243	7,779	8,374	9,055	9,791	10,599

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

[1] Includes Millennium Challenge Account (MCA) grants in 2011–15.

Table 3. Senegal: Government and FSE Financial Operations, 2009–17

	2009	2010	2011		2012		2013	2014	2015	2016	2017
			EBS/ 11/176	Actual	EBS/ 11/176	Prog.			Proj.		
	(Billions of CFA francs, unless otherwise indicated)										
Total revenue and grants	1,305	1,398	1,545	1,526	1,717	1,692	1,812	1,956	2,122	2,264	2,452
Revenue	1,123	1,236	1,383	1,376	1,551	1,497	1,608	1,736	1,884	2,012	2,185
Tax revenue	1,086	1,195	1,299	1,287	1,467	1,411	1,495	1,617	1,759	1,914	2,079
Income tax	288	339	356	346	379	379	384	421	464	506	550
Taxes on goods and services	615	693	728	729	851	830	835	911	997	1,086	1,180
Taxes on petroleum products	182	162	216	212	237	202	277	285	298	322	348
Nontax revenue	37	42	45	50	48	50	78	84	90	98	106
FSE [1]	0	0	39	39	35	35	35	35	35	0	0
Grants	182	162	162	150	166	196	204	220	238	252	268
Budgetary	46	22	37	37	32	32	34	37	40	43	46
Budgeted development projects	136	140	125	113	134	164	170	183	198	209	222
Total expenditure and net lending [1]	1,607	1,729	1,972	1,980	2,126	2,155	2,179	2,313	2,472	2,634	2,839
Current expenditure	997	995	1,191	1,233	1,198	1,250	1,274	1,336	1,374	1,471	1,591
Wages and salaries [2]	364	392	416	428	444	450	467	502	543	587	636
Interest due	45	60	83	104	110	110	125	132	134	151	164
Of which : external	23	38	49	62	62	57	64	68	64	81	88
Other current expenditure	587	543	691	702	644	690	682	702	696	732	791
Transfers and subsidies	286	240	331	335	249	312	291	287	254	262	283
Of which : SAR and butane subsidy	33	0	15	15	4	4	0	0	0	0	0
Of which: SENELEC/energy	30	0	124	124	40	105	80	60	10	0	0
Of which: Food subsidies	0	0	0	0	0	8	0	0	0	0	0
Goods and services	292	290	348	356	383	366	379	403	430	459	496
HIPC and MDRI current spending	9	12	12	11	12	12	12	12	12	12	13
Capital expenditure [3]	607	736	747	718	936	913	906	977	1,098	1,164	1,248
Domestically and nonconcessionally financed	369	437	466	475	557	504	507	553	648	698	760
HIPC and MDRI-financed	60	47	49	46	48	48	47	49	51	52	54
Non-HIPC/MDRI financed	309	390	417	429	509	456	460	504	597	646	706
Externally (concessionally) financed	237	299	281	244	379	409	398	424	450	466	488
Net lending	3	-2	35	28	-8	-8	0	0	0	0	0
Of which : On-lending	6	1	38	36	12	12	13	14	15	16	18
Selected public sector entities balance [4]	9	-3	0	0	0	0	0	0	0	0	0
Primary fiscal balance	-247	-270	-348	-356	-304	-357	-247	-229	-219	-223	-227
Overall fiscal balance (excluding grants)	-474	-496	-589	-605	-576	-658	-571	-577	-587	-623	-655
Overall fiscal balance (including grants)	-292	-334	-427	-455	-410	-463	-367	-357	-350	-370	-387
Financing	292	334	427	455	410	463	367	357	350	371	388
External financing	224	173	323	422	262	389	400	367	381	401	421
Drawings	163	190	210	175	246	328	282	299	315	324	339
Program loans	55	30	38	40	25	107	41	44	47	51	55
Project loans	107	160	172	135	221	221	242	255	267	273	284
Nonconcessional loans	88	0	224	224	44	44	100	42	45	49	53
Amortization due	-50	-53	-175	-175	-92	-89	-91	-71	-79	-79	-81
T-bills and bonds issued in WAEMU (net)	4	18	47	184	47	89	91	79	81	89	92
Debt relief and HIPC Initiative assistance	20	19	17	13	18	18	18	18	19	19	19
Domestic financing	157	172	109	12	148	100	-33	-10	-31	-30	-34
Banking system [5]	116	172	104	12	148	50	-33	-10	-31	-30	-34
Of which : T-bills and bonds (net)	52	83	140	64	140	37	-19	11	0	2	-6
Nonbank financing	41	0	5	0	0	50	0	0	0	0	0
Settlement of payment delays	-95	-13	-5	21	0	-26	0	0	0	0	0
Errors and omissions	6	1	0	0	0	0	0	0	0	0	0
Memorandum items:											
Budgetary float (program definition)	45	50	50	50	50	50	50	50	50	50	50
New issues of government securities	147	292	362	417	519	518	540	...	...	...	...
Priority expenditure (percent of total expenditure) [6]	36	37	35	35	35	35	35	…	…	…	…
Gross domestic product	6,029	6,369	6,837	6,818	7,346	7,243	7,779	8,374	9,055	9,791	10,599

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

[1] Starting in 2011, the data covers also the FSE operations.

[2] Excludes project-related wages and salaries included in capital spending and the salaries of autonomous agencies and health and education contractual workers included in transfers and subsidies.

[3] In 2012 includes drought-related expenditure.

[4] Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).

[5] Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.

[6] Expenditure on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government and FSE Financial Operations, 2009–17

	2009	2010	2011		2012		2013	2014	2015	2016	2017
			EBS/ 11/176	Actual	EBS/ 11/176	Prog.			Proj.		
					(Percent of GDP)						
Total revenue and grants	21.7	22.0	22.6	22.4	23.4	23.4	23.3	23.4	23.4	23.1	23.1
Revenue	18.6	19.4	20.2	20.2	21.1	20.7	20.7	20.7	20.8	20.5	20.6
Tax revenue	18.0	18.8	19.0	18.9	20.0	19.5	19.2	19.3	19.4	19.5	19.6
Income tax	4.8	5.3	5.2	5.1	5.2	5.2	4.9	5.0	5.1	5.2	5.2
Taxes on goods and services	10.2	10.9	10.6	10.7	11.6	11.5	10.7	10.9	11.0	11.1	11.1
Taxes on petroleum products	3.0	2.6	3.2	3.1	3.2	2.8	3.6	3.4	3.3	3.3	3.3
Nontax revenue	0.6	0.7	0.7	0.7	0.7	0.7	1.0	1.0	1.0	1.0	1.0
FSE			0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.0	0.0
Grants	3.0	2.5	2.4	2.2	2.3	2.7	2.6	2.6	2.6	2.6	2.5
Total expenditure and net lending[1]	26.7	27.1	28.8	29.0	28.9	29.8	28.0	27.6	27.3	26.9	26.8
Current expenditure	16.5	15.6	17.4	18.1	16.3	17.3	16.4	16.0	15.2	15.0	15.0
Wages and salaries	6.0	6.2	6.1	6.3	6.0	6.2	6.0	6.0	6.0	6.0	6.0
Interest payments	0.8	0.9	1.2	1.5	1.5	1.5	1.6	1.6	1.5	1.5	1.5
Other current expenditure	9.7	8.5	10.1	10.3	8.8	9.5	8.8	8.4	7.7	7.5	7.5
Of which: goods and services	4.8	4.6	5.1	5.2	5.2	5.1	4.9	4.8	4.7	4.7	4.7
Of which: transfers and subsidies	4.7	3.8	4.8	4.9	3.4	4.3	3.7	3.4	2.8	2.7	2.7
Of which: energy and food subsidies	1.0	0.0	2.0	2.0	0.6	1.6	1.0	0.7	0.1	0.0	0.0
HIPC and MDRI current spending	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Capital expenditure [2]	10.1	11.6	10.9	10.5	12.7	12.6	11.6	11.7	12.1	11.9	11.8
Domestically and nonconcessionally financed	6.1	6.9	6.8	7.0	7.6	7.0	6.5	6.6	7.2	7.1	7.2
Externally (concessionally) financed	3.9	4.7	4.1	3.6	5.2	5.6	5.1	5.1	5.0	4.8	4.6
Net lending	0.1	0.0	0.5	0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Selected public sector entities balance [3]	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-4.1	-4.2	-5.1	-5.2	-4.1	-4.9	-3.2	-2.7	-2.4	-2.3	-2.1
Overall fiscal balance											
Payment order basis, excluding grants	-7.9	-7.8	-8.6	-8.9	-7.8	-9.1	-7.3	-6.9	-6.5	-6.4	-6.2
Payment order basis, including grants	-4.8	-5.2	-6.2	-6.7	-5.6	-6.4	-4.7	-4.3	-3.9	-3.8	-3.7
Financing	4.8	5.2	6.2	6.7	5.6	6.4	4.7	4.3	3.9	3.8	3.7
External financing	3.7	2.7	4.7	6.2	3.6	5.4	5.1	4.4	4.2	4.1	4.0
Domestic financing	2.6	2.7	1.6	0.2	2.0	1.4	-0.4	-0.1	-0.3	-0.3	-0.3
Settlement of payment delays	-1.6	-0.2	-0.1	0.3	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(Percent of GDP, unless otherwise indicated)						
Priority expenditure [4]	9.5	10.0	9.0	9.0	9.9	10.2	10.2	...	...	...	...
Wages and salaries (percent of revenue)	32.4	31.7	30.1	31.1	28.6	30.1	29.0	28.9	28.8	29.2	29.1

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

[1] Starting in 2011, the data covers also the FSE operations.

[2] In 2012 includes drought-related expenditure.

[3] Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).

[4] Expenditure on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 5. Senegal: Monetary Survey, 2008–12

	2008	2009	2010	2011		2012	
				EBS/ 11/176	Act.	EBS/ 11/176	Proj.
	(CFAF billions)						
Net foreign assets	762	859	988	1,116	931	1,151	930
BCEAO	653	725	735	861	726	894	726
Commercial banks	109	133	253	256	204	257	203
Net domestic assets	1,245	1,367	1,552	1,740	1,782	2,123	1,987
Net domestic credit	1,467	1,604	1,847	2,134	2,108	2,504	2,297
Net credit to the government	28	112	200	341	155	488	200
Central bank	-14	119	202	143	104	169	105
Commercial banks	33	-9	0	200	46	321	93
Other institutions	9	2	-2	-2	5	-2	2
Credit to the economy	1,440	1,492	1,647	1,794	1,953	2,015	2,097
Other items (net)	-223	-236	-295	-394	-326	-380	-310
Broad money	2,007	2,226	2,540	2,856	2,713	3,274	2,917
Currency outside banks	474	495	561	598	589	588	582
Total deposits	1,532	1,731	1,979	2,259	2,123	2,686	2,335
Demand deposits	779	864	988	1,127	1,061	1,341	1,166
Time deposits	754	867	991	1,131	1,063	1,345	1,170
	(Change in percentage of beginning-of-period broad money stock)						
Net foreign assets	-4.5	4.8	5.8	5.0	-2.3	1.2	0.0
BCEAO	0.4	3.6	0.4	5.0	-0.3	1.2	0.0
Commercial banks	-5.0	1.2	5.4	0.1	-1.9	0.0	0.0
Net domestic assets	6.2	6.1	8.3	7.2	9.0	13.4	7.6
Net credit to the government	-3.5	4.2	4.0	5.5	-1.8	5.2	1.7
Credit to the economy	10.7	2.6	7.0	5.8	12.0	7.8	5.3
Other items (net)	-1.0	-0.7	-2.6	-4.1	-1.2	0.5	0.6
Broad money	1.7	10.9	14.1	12.4	6.8	14.6	7.5
Memorandum items:	(Units indicated)						
Velocity (GDP/broad money; end of period)	3.0	2.7	2.5	2.4	2.5	2.2	2.5
Nominal GDP growth (percentage growth)	10.8	0.6	5.6	7.5	7.1	7.4	6.2
Credit to the economy (percentage growth)	17.2	3.6	10.4	8.9	18.6	12.4	7.4
Credit to the economy/GDP (percent)	24.0	24.7	25.9	26.2	28.6	27.4	28.9
Variation of net credit to the government (yoy; CFAF billions)	-68.3	83.7	88.5	140.5	-45.4	147.7	45.3
Central bank refinance rate (eop; percent)	4.75	4.25	4.25	4.25	4.25	4.25	…

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

Table 6. Financial Soundness Indicators for the Banking Sector, 2004–11
(Percent, unless otherwise indicated)

	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.
Capital adequacy								
Capital to risk-weighted assets	11.5	10.8	12.9	13.5	13.8	16.3	18.0	16.0
Regulatory capital to risk-weighted assets	11.9	11.1	13.1	13.6	13.9	16.5	18.2	15.9
Capital to total assets	7.7	7.6	8.3	8.3	9.1	9.3	10.0	9.8
Asset composition and quality								
Total loans to total assets	57.1	64.0	63.8	58.8	62.8	59.5	57.5	60.6
Concentration: loans to 5 largest borrowers to capital	131.4	179.9	103.7	88.5	100.9	71.7	70.6	69.8
Sectoral distribution of loans								
Industrial	33.6	35.5	28.9	25.1	19.5	27.5	26.4	22.2
Retail and wholesale trade	19.3	17.0	18.9	14.4	18.5	24.5	23.8	19.2
Services, transportation and communication	27.4	28.0	30.0	29.6	31.1	34.1	41.9	34.0
Gross NPLs to total loans	12.6	11.9	16.8	18.6	17.4	18.7	20.2	16.2
Of which: without ICS	…	…	…	12.7	14.2	15.8	15.8	13.2
Provisions to NPLs	75.7	75.4	52.0	53.8	51.5	53.1	54.9	54.0
Of which: without ICS	…	…	…	74.6	65.7	64.7	65.3	68.3
NPLs net of provisions to total loans	3.4	3.2	8.8	8.6	9.3	9.7	9.1	8.1
Of which: without ICS	…	…	…	3.6	5.4	6.2	6.1	4.6
NPLs net of provisions to capital	25.1	27.2	67.9	60.7	63.9	62.3	52.3	50.4
Of which: without ICS	…	…	…	23.8	35.3	38.4	41.5	35.7
Earnings and profitability								
Average cost of borrowed funds	2.0	2.0	2.2	2.3	2.8	3.4	2.2	2.0
Average interest rate on loans	11.7	11.8	11.3	11.6	13.9	15.4	8.1	8.4
Average interest margin	9.7	9.8	9.2	9.3	11.1	12.0	13.2	14.4
After-tax return on average assets	1.8	1.6	1.6	1.6	1.4	1.3	1.6	2.2
After-tax return on average equity	17.6	15.8	14.6	15.3	13.0	16.0	15.4	22.6
Noninterest expenses/net banking income	48.7	47.9	49.4	50.7	51.3	60.3	56.7	56.0
Salaries and wages/net banking income	21.5	21.2	21.7	22.2	21.1	23.0	24.8	23.8
Liquidity								
Liquid assets to total assets	…	…	…	…	…	31.7	39.8	36.1
Liquid assets to total deposits	…	…	…	…	…	49.8	52.4	76.7
Total deposits to total liabilities	79.6	78.3	75.8	73.6	70.3	74.9	76.0	62.8

Source: BCEAO.

Table 7. Quantitative Assessment Criteria and Indicative Targets for 2011 [1]

(CFAF billions, unless otherwise specified)

	June 30, 2011			September 30, 2011			December 31, 2011		
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status
Assessment criteria									
Floor on the overall fiscal balance [2 3]	-237	-155	*met*	*-355*	*-318*	met	-427	-455	not met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) [4]	500	300	*met*	500	*300*	met	500	300	met
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	*met*	*0*	*0*	met	0	0	met
Ceiling on government external payment arrears (stock) [4]	0	0	*met*	*0*	*0*	met	0	0	met
Ceiling on the amount of the budgetary float	50	45	*met*	50	*40*	met	50	50	met
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	30	0	*met*	30	*0*	met	44	0	met
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*6*	*met*	*20*	*47*	not met	*20*	*16*	met
Floor on social expenditures (percent of total spending)	*35*	*41*	*met*	…	…	…	*35*	*37*	met
Maximum upward adjustment of the overall deficit ceiling due to									
Shortfall in program grants relative to program projections	*15*	…	…	*15*	…	…	*15*	…	…
Excess in concessional loans relative to program projections	*70*	…	…	*70*	…	…	*50*	…	…
Excess in energy sector and autoroute investment relative to program projections	…	…	…	…	…	…	*50*	…	…
Memorandum items:									
Program grants	19	35	…	28	37	…	37	37	…
Concessional loans	114	88	…	170	…	…	210	175	…
Investment in the energy sector and the autoroute [5]	…	…	…	…	…	…	66	66	…

[1] Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

[2] Cumulative since the beginning of the year.

[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.

[4] Monitored on a continuous basis.

[5/] Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Table 8. Quantitative Assessment Criteria and Indicative Targets for 2011–12 [1]

(CFAF billions, unless otherwise specified)

	December 31, 2011			March 31, 2012			June 30, 2012	September 30, 2012	December 31, 2012
	Prog.	Actual	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.
Assessment criteria									
Floor on the overall fiscal balance [2] [3]	-427	-455	not met	*-102*	*-70*	met	-231	*-347*	-463
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	300	met	500	300	met	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	met	0	0	met	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	0	met	*0*	*0*	met	0	*0*	0
Ceiling on the amount of the budgetary float	50	50	met	*50*	*49*	met	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	0	met	44	0	met	44	44	44
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*16*	met	*20*	*14*	met	*20*	*20*	*20*
Floor on social expenditure (percent of total spending)	*35*	*37*	met	…	…	met	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling due to									
Shortfall in program grants relative to program projections	15	…	…	15	…	…	15	15	15
Excess in concessional loans relative to program projections	50	…	…	50	…	…	50	50	50
Excess in energy sector and autoroute investment relative to program projections	50	…	…	50	…	…	50	50	50
Memorandum items:									
Program grants	37	37	…	9	…	…	19	28	32
Concessional loans	210	175	…	52	…	…	105	157	328
Investment in the energy sector and the autoroute [5]	66	66	…	*44*	…	…	81	*122*	162

[1] Indicative targets for March and September 2012, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

[2] Cumulative since the beginning of the year.

[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.

[4] Monitored on a continuous basis.

[5] Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Table 9. Quantitative Assessment Criteria and Indicative Targets for 2012–13 [1]

(CFAF billions, unless otherwise specified)

	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	Prog.	Proj.	Proj.	Proj.	Proj.
Assessment criteria					
Floor on the overall fiscal balance [2] [3]	-463	*-92*	-184	*-275*	-367
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	500	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	*0*	0	*0*	0
Ceiling on the amount of the budgetary float	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	44	44	44	44
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	35	…	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling owing to					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
Excess in energy sector and autoroute investment relative to program projections	50	50	50	50	50
Memorandum items:					
Program grants	32	8	16	24	34
Concessional loans	328	82	164	246	282
Investment in the energy sector and the autoroute [5]	162	…	…	…	…

[1] Indicative targets for March and September 20132, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

[2] Cumulative since the beginning of the year.

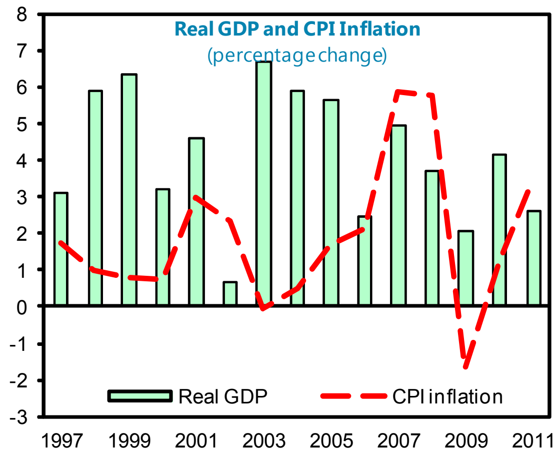
[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.

[4] Monitored on a continuous basis.

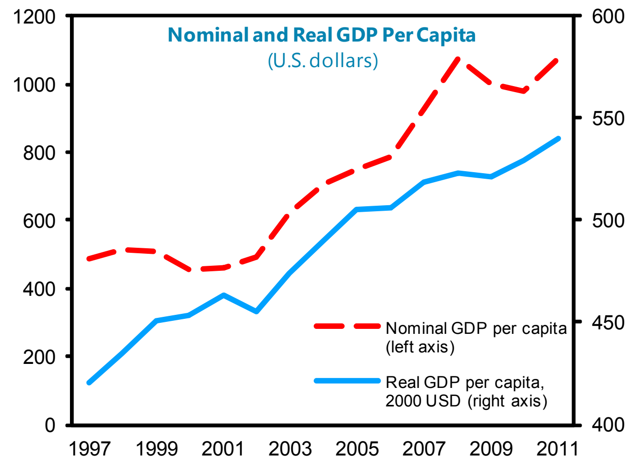
[5] Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Figure 1. Senegal: Historical Perspective, 1997–2011

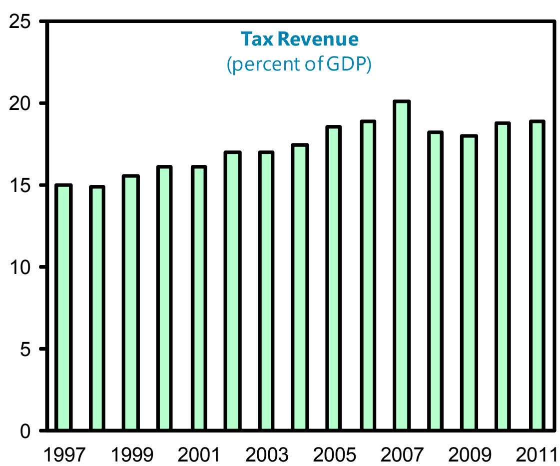
Growth has been volatile...



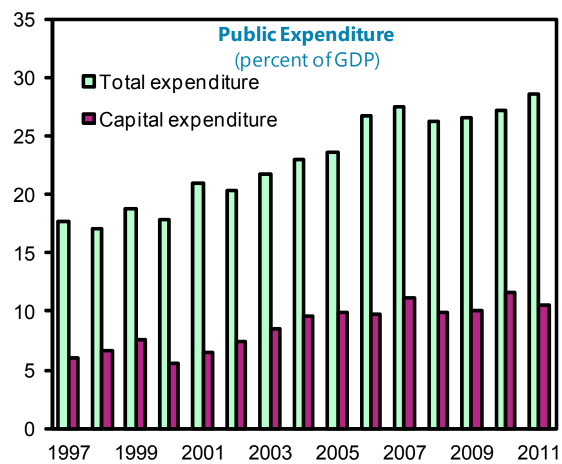
...but per capita income has risen steadily.



A rising revenue trend, interrupted by the 2008 crisis,



allowed for higher spending, including capital projects.



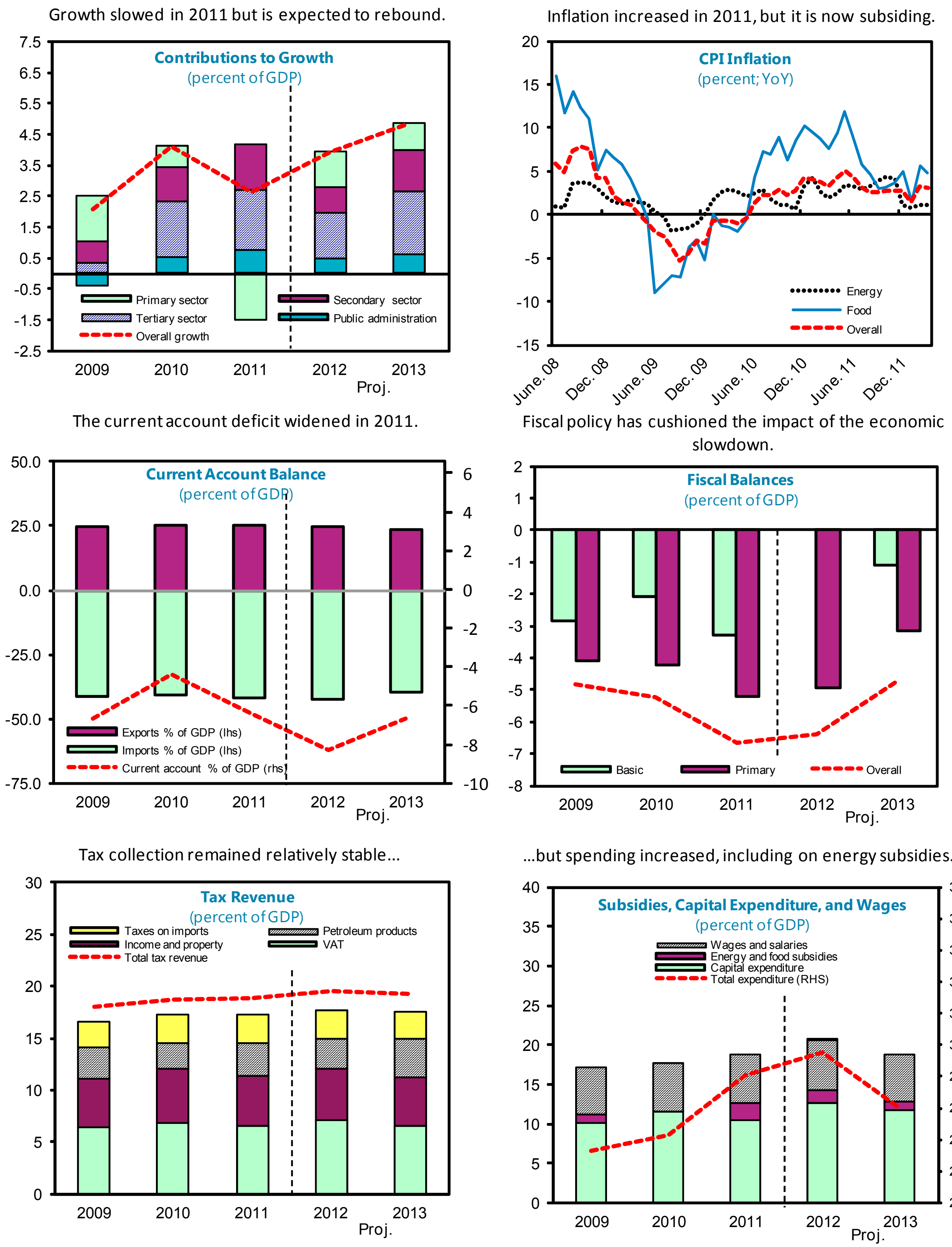
Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2010
Poverty headcount ratio at $1.25 a day (PPP) (% of popu	66	54	44	34	..
Literacy rate, youth female (% of females ages 15-24)	28	..	41	45	56
Total enrollment, primary (% net)	45	50	58	72	78
Ratio of female to male primary enrollment (%)	72	76	87	97	106
Mortality rate, infant (per 1,000 live births)	70	68	63	56	50
Mortality rate, under-5 (per 1,000)	139	134	119	95	75
Births attended by skilled health staff (% of total)	..	47	60	52	..
Prevalence of HIV, total (% of population ages 15-49)	0	0	1	1	1
Improved water source (% of population with access)	61	63	65	68	72

Source: Millennium Development Goals Database, World Bank, 2012.

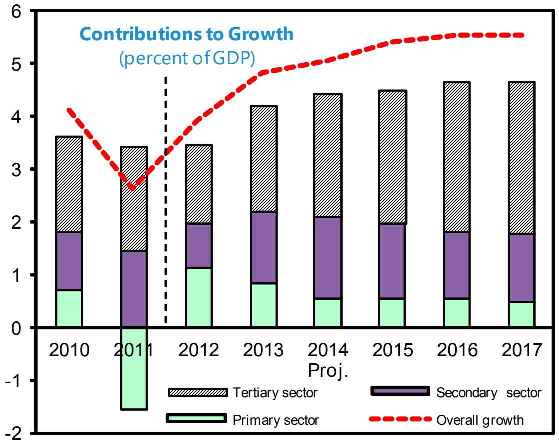
Figure 2. Senegal: Recent Developments and Short-Term Projections , 2009–2013



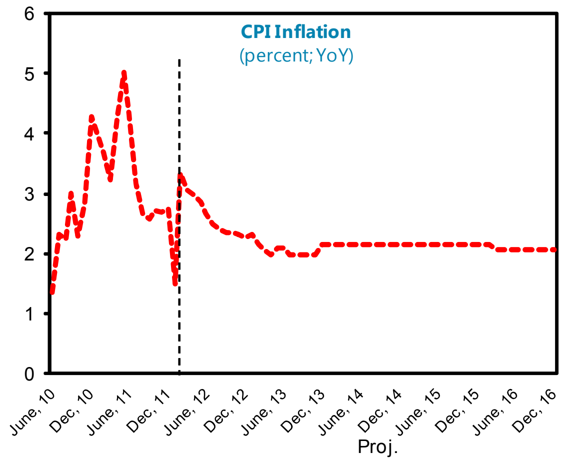
Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

Figure 3. Senegal: Medium-Term Outlook, 2010–17

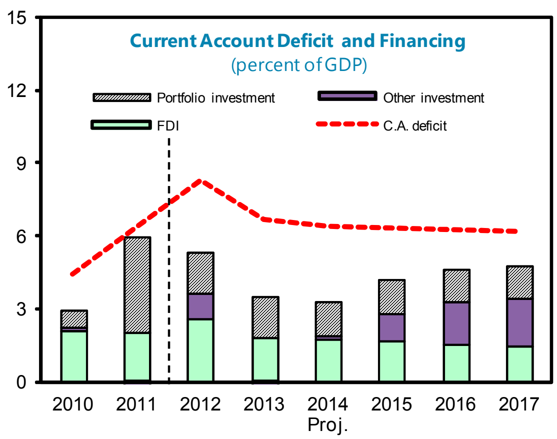
Output growth is projected to be driven by services, and the energy and construction sectors related to large investment projects.



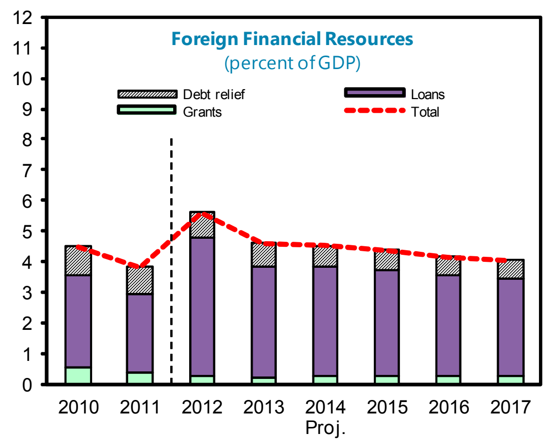
Inflation is projected to return to historical trends in the absence of renewed energy and food price pressures.



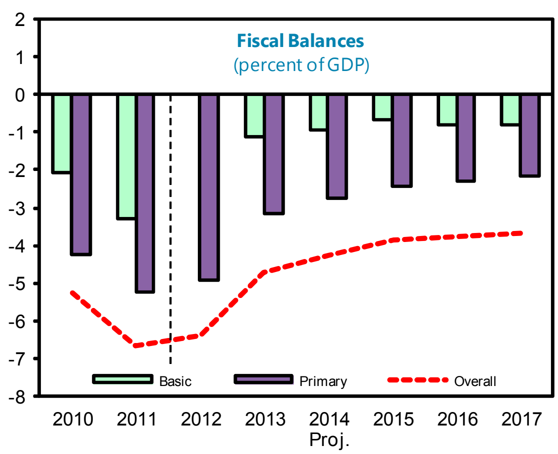
The current account deficit is projected to be financed mainly by public flows ...



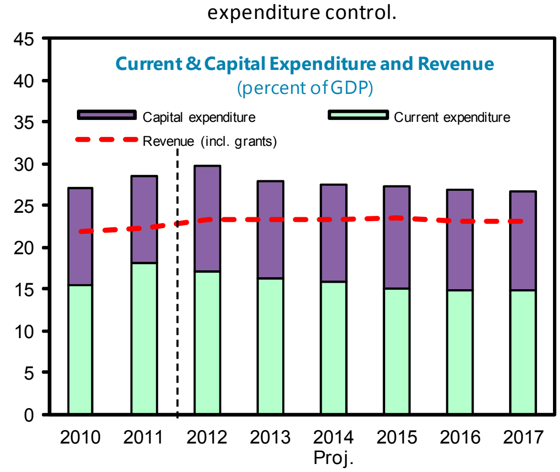
...while the economy will remain laregly dependent on foreign financial resources.



The fiscal deficit will need to decline in the medium term...



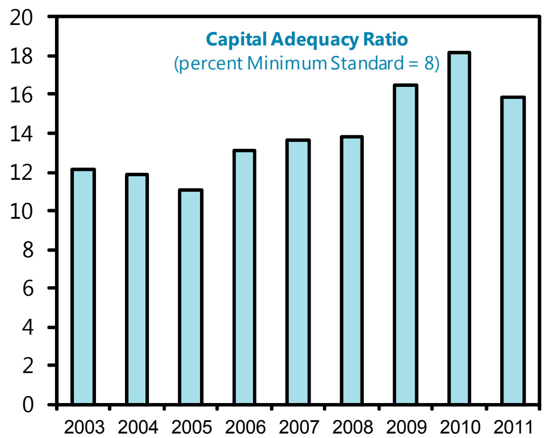
...through a combination revenue mobilization and expenditure control.



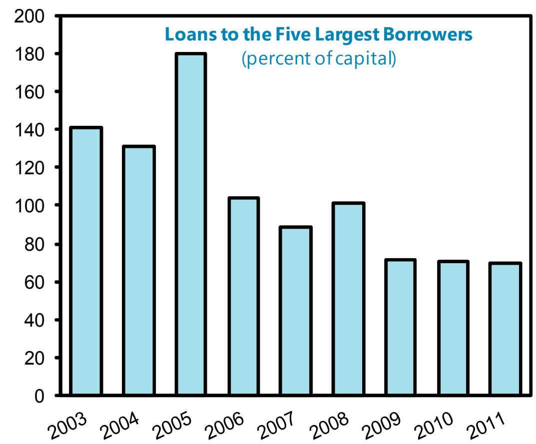
Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

Figure 4. Senegal: Financial Sector Issues

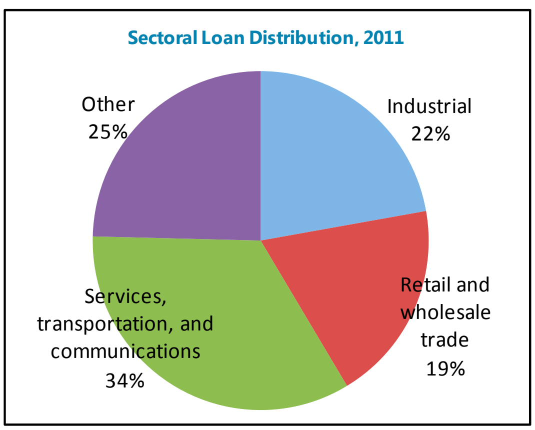
The banking sector overall is well capitalized...



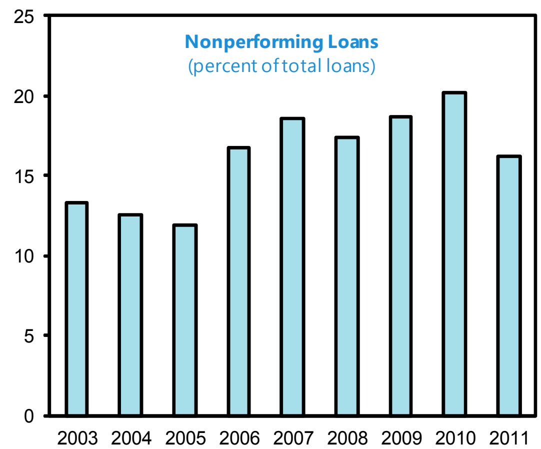
... but loans remain highly concentrated.



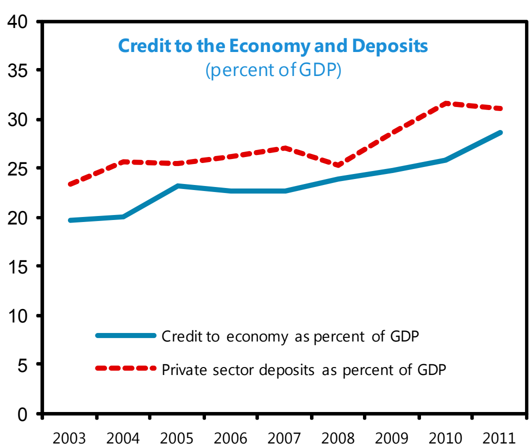
Lending benefits a few sectors...



..but the level of nonperforming loans remains high.



The gradual deepening of the financial sector..



...is held back by obstacles to credit access.

Access to Credit			
	Senegal	Mauritius	Morocco
Rank (out of 183)	126	78	98
Strength of legal rights index (0–10)	6	6	3
Depth of credit information index (0–6)	1	3	5
Public registry coverage (pecent of adults)	4.5	49.8	0
Private bureau coverage (percent of adults)	0	0	14.6

Source: Senegalese authorities; IMF staff calculations and estimates; and Doing Business 2012

APPENDIX I

LETTER OF INTENT

Dakar, Senegal
June 22, 2012

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431
USA

Dear Mrs. Lagarde:

1. The government of Senegal requests completion of the third review of its 2010-2013 macroeconomic program supported by the Policy Support Instrument (PSI). The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010, and in the MEFPs of May 19, 2011 and December 2, 2011 pertaining to the first and second reviews, respectively. The attached MEFP takes stock of program performance at end-December 2011, assesses the situation at end-March 2012, sets out the new government's macroeconomic objectives for the remainder of 2012 as well as indicative targets for 2013, and updates the structural reforms being implemented under the program.

2. The new government reaffirms its commitment to the PSI-supported program, whose objectives are shared as outlined in the MEFP. Nevertheless, in addition to fiscal slippages it inherited, the government faces a weakening external environment, growing regional instability, and must address the impact of the drought on the population and the economy. For these reasons, a number of adjustments in program implementation, without departing from its major objectives, are desirable.

3. Maintaining macroeconomic stability remains a key element of the growth and development strategy of Senegal. The government's efforts to keep public finances under control have a medium-term perspective, with the goal of reducing the fiscal deficit below 5 percent of GDP in 2013 and 4 percent by 2015. Since taking office, the government has made substantial efforts to contain the 2012 budget deficit. However, given the exceptional circumstances facing public finances in 2012, which if no corrective measures are taken could lead to a deficit of more than 8 percent of GDP, the initial deficit target of 5.6 percent of GDP is now out of reach. The government therefore proposes that the target be revised upward to 6.4 percent of GDP, which takes into account the impact on the budget of the drought in the Sahel and the weak economic environment. Nevertheless, the new target will still require substantial efforts to control spending, which we are firmly committed to achieving. The government requests modification of the end-June and end-December 2012 assessment criteria on the overall fiscal deficit.

4. The new government is committed to reform the State to enhance the efficiency of public policy and promote private sector development. A number of strong measures to improve public governance and transparency have already been adopted and announced. The government also proposes to reschedule structural measures which were not implemented in early 2012 in the context of electoral tensions.

5. The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the PSI-supported program. Given its commitment to macroeconomic stability and debt sustainability, the government will promptly take any additional measures needed to achieve 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 in the event of changes to the policies contained in the attached MEFP. Moreover, 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.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the Staff Report relating to the current review.

Sincerely yours,

Amadou Kane
Minister of Economy and Finance

/s/

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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
Dakar, June 22, 2012

I. INTRODUCTION

1. **Peaceful presidential elections in March 2012 have led to a new President and a new Government in Senegal.** The priorities of the new team for the short term may be summarized as follows: (i) support for the rural population, following the disappointing 2011/2012 crop year; (ii) price reductions for staple food items (rice, oil, and sugar), in coordination with the traders involved; (iii) resumption of discussions aimed at peace in Casamance, working with the Gambia and Guinea-Bissau; (iv) reform of the central government (including reducing the cost of running the government and streamlining public expenditure to improve its effectiveness); and (v) continuing the reforms in the energy sector. In the medium and long terms, the key reforms and sectors that generate growth and poverty reduction continue to be the government's priority. The focus is primarily on jobs, SME and private sector development, economic and financial governance, food security, and infrastructure.

2. **The government is resolved to continue implementation of the program under the Policy Support Instrument (PSI, 2011-13)**, the objectives of which are consistent with those of the new government. The main objectives of the program are to: (i) implement a prudent fiscal and debt policy to safeguard macroeconomic stability; (ii) increase revenue with a view to widening the budgetary space for financing priority expenditures; (iii) continue strengthening public financial management and governance; and (iv) encourage private sector development by implementing structural reforms. However, the government is still confronted by an unfavorable external environment, increased regional instability, and the impact of the drought on the population and the economy. For these reasons, a number of adjustments in program implementation, without departing from its major objectives, are desirable.

3. **This memorandum updates the program in light of the new challenges facing Senegal in 2012.**[1] It is divided into three sections. The first section reviews recent economic developments and program performance. The second section looks at the macroeconomic objectives for the remainder of 2012 and for the medium term, as well as macroeconomic

[1] The content of this program was set out in the initial MEFP of November 10, 2010, and in the MEFPs of May 19, 2011 and December 2, 2011.

policy and structural reforms. The last section is devoted to the changes desired in program monitoring.

II. Recent Economic Developments and Program Implementation

4. **Macroeconomic developments in 2011 were less favorable than anticipated owing to the drought afflicting the Sahel.** The sharp drop in agricultural production affected the performance of the primary sector, which recorded negative growth in 2011 (-10.8 percent). In contrast, the secondary sector remained dynamic in 2011 (+7.2 percent) despite the persistence of power outages until September. The tertiary sector also fared well, with growth estimated at 4 percent. Overall, real GDP growth in 2011 has been revised downward from 4 percent to 2.6 percent, after 4.1 percent in 2011, owing to increases in the prices of foodstuffs and transport in a context of rising world prices. The current account balance registered a deficit of 6.4 percent of GDP, and the balance of payments recorded a deficit as well. Credit to the economy increased sharply while the money supply expanded by 5.2 percent.

5. **Program implementation experienced a slowdown in early 2012 in the run-up to the elections.** All of the quantitative assessment criteria for end-2011 were met, with the exception of the criterion on the fiscal deficit (see Table 1). The deficit for 2011 came to CFAF 455 billion (6.7 percent of GDP), against a target of CFAF 427 billion. This gap is explained by current expenditure overruns, largely owing to regularization of the status of contractual staff in education and to revenue shortfalls, mainly from taxes on goods and services. Progress was made in the implementation of the structural reforms, but at a pace short of that envisaged in the program:

(i) the national registration number for enterprises and associations (NINEA) became mandatory for customs operations as of January 1, 2012, as planned, but there is still progress to be made to improve exchange of information with the tax administration (see below);

(ii) the new directorate responsible for debt management was created on time and its director has been designated; it will become fully operational on June 30, 2012;

(iii) the study analyzing the resources earmarked for the microfinance sector and the impact thereof, with a view to streamlining them, was completed in end-January as planned;

(iv) the comprehensive survey of agencies and their missions was delayed in early 2012, but is now well advanced;

(v) the preparation of a project evaluation guide, with financial support for the World Bank for the recruitment of a consulting firm, was further delayed because of an underestimation of the time required for competitive bidding procedures;

(vi) the audit of the use of resources allocated for the highway extension was not performed, as the works in question have not yet started and the project is currently being re-examined in light of the significant financial constraints on public finances;

(vii) the action plan on the subsidies to power consumers has not been drawn up. The new government would like to have more time for analyzing this sensitive subject.

6. **At end-March 2012, the quantitative assessment criteria and indicative targets of the program were met overall.** The fiscal balance is estimated well below the program floor of CFAF -102 billion. The budgetary float came to CFAF 49 billion. However, the tight treasury situation because of the presidential elections resulted in an increase in payment arrears of the agencies, with many checks issued but not paid to their beneficiaries. Other indicators relating to the nonconcessional external debt, external payments arrears, and public sector contracts signed by single tender were all observed.

III. Macroeconomic Policy and Structural Reforms for 2012

7. **Senegal's development strategy targets an emerging economy that guarantees sustainable development with positive effects shared in an inclusive manner.** The Economic and Social Policy Paper (DPES) 2011-2015 is at an advanced phase of preparation and was validated by the previous government and development stakeholders. The new government will need a few months to review the document to make sure that it reflects well its priorities and to update the underlying macroeconomic projections. The DPES will be finalized and transmitted to the IMF and World Bank by end-October 2012.

A. Macroeconomic Context for 2012

8. **An unfavorable economic environment constitutes an additional challenge to program implementation.** Indeed, the world economic slowdown, particularly in Europe, the increase in petroleum product prices, sociopolitical tensions in the sub-region (in Mali and Guinea-Bissau), and the impact of the drought, are all factors affecting the economic activity, the external accounts, and public finances of Senegal.

9. **Despite the factors weighing on activity in 2012, GDP growth is expected to increase to 3.9 percent from 2.6 percent in 2011**. This rebound in activity should be buttressed by recovery in agricultural output, assuming normal rainfall, as well as the provision of agricultural inputs on time and in sufficient quantity by the State. Growth should be sustained by public investment through the continued implementation of the electricity sector reform plan, works on the toll highway and the Blaise Diagne airport, the initiation of projects financed by the Millennium Challenge Account (MCA), and continued work on the projects in the social sectors. The restoration of a reliable and adequate supply of electrical power and the calmer political environment should also have a significant impact on

economic activity. Inflation is expected to decline to about 2.5 percent in 2012. The current account deficit is expected to swell driven by the imports associated with investment in the energy sector as well as imports of foodstuffs because of the drought, and the overall balance of payments is again expected to register deficit.

10. **These projections are subject mainly to downside risks.** The possible resurgence of the crisis in Europe is a major downside risk for the Senegalese economy. Rising international oil prices represent a second downside risk. Domestically, the expectations of the population, which are high following the elections, will need to be managed.

11. Progress and new challenges in the implementation of the key measures included in the program are set forth in the remainder of this section, grouped in accordance with the four major objectives of the program.

B. Pursue a Prudent Public Financial and Debt Policy to Safeguard Macroeconomic Stability

12. **Maintaining macroeconomic stability is necessary for fostering and sustaining higher economic growth and thus development.** The growth recorded in 2012 is insufficient, but this is largely the result of exogenous factors. Higher growth is expected to be achieved in 2013 and beyond. The government will contribute to growth through improved management of public resources and structural reforms to bolster the competitiveness of the economy. Inflation will be kept low and the fiscal deficit will be reduced to less than 4 percent of GDP by 2015 to ensure the sustainability of public finances and contribute to the WAEMU convergence process.

13. **Public finances are affected by exceptional circumstances in 2012.** The downward revision of the 2012 growth projection is the source of significant revenue shortfalls (about CFAF 20 billion). Moreover, the continuation of the freeze of fuel prices at the pump in a context of high international oil prices would also have a substantial negative impact on revenue (about CFAF 35 billion). This high level of oil prices also led to an upward revision in the electricity tariff gap, expected to reach CFAF 105 billion in 2012. Consequently, the amount of CFAF 40 billion included in the budget will fall far short of covering this expense. In addition, there is a need to assist the rural population, which is faced by problems resulting from the poor 2011/2012 crop season because of the drought in the Sahel.

14. **Measures are being implemented to ease the impact of the drought and prepare for the next crop season.** The government has decided to help vulnerable rural population groups by distributing food products during the lean season. It further decided to subsidize inputs (seed and fertilizer) to revitalize agricultural production. The cost borne by public finances for all these measures exceeds 1 percent of GDP. The government is counting on

support from Senegal's main partners to cover a share of these costs through grants, including grants in kind.

15. **Steps have been taken to reduce the prices for staple food items (rice, sugar, and cooking oil).** This temporary and targeted measure, which takes the form of subsidies (and not the reduction/suspension of taxes), will ease the burden on the Senegalese people, especially in peri-urban areas. This measure is expected to lead to additional budget expenditures of 0.1 percent of GDP, as traders and producers have agreed to bear a portion of the cost.

16. **The government is committed to reduce substantially the gap from the budget target in 2012.** In the absence of corrective measures, the fiscal deficit would exceed 8 percent of GDP in 2012, overshooting the program target by about 2.5 percent of GDP. Such a deficit level is not compatible with the program objective of macroeconomic stability and keeping public finances under control. The government proposes to reduce substantially this budget gap and set a new deficit target of 6.4 percent of GDP, compared with the earlier 5.6 percent, which reflects the impact of exogenous factors (the drought and the economic slowdown). A draft supplementary budget law was adopted by the Council of Ministers on June 14, 2012 and reflects this undertaking.

17. **To achieve this objective, and also to implement the commitments made by the President of the Republic, the government intends reduce drastically and sustainably the cost of running the government.** Operating expenditure will therefore be systematically re-examined in order to eliminate insufficiently productive spending:

- Reducing the number of ministries from 37 to 25 will generate savings on operation of ministerial offices and the associated units;

- Efforts to streamline agencies and diplomatic services will also be initiated in the months ahead;

- Purchases of goods and services will be substantially reduced through concrete measures to combat abuses and inefficiencies. For example, the government telecommunications costs could ultimately be reduced by 40 percent by cancelling all mobile phone lines used by those not entitled to them, restricting the number of beneficiaries, and imposing usage ceilings on landline and mobile phone subscriptions. Similarly, substantial savings will be made on the renting of buildings for office space and housing, as well as spending on the government vehicle fleet.

- A civil service audit will be initiated in the months ahead.

However, these measures will have only a limited impact in 2012. In order to guarantee savings of CFAF 35 billion, a number of specific measures have already been identified and will be accompanied by sharp reductions in available allocations for operating expenditure, with the exception of priority expenditures.

18. **Some investment expenditures will also have to be deferred.** The savings (about CFAF 91 billion) will for the most part come from the new projects financed exclusively from domestic sources and not yet started, nonpriority projects, and projects that have a limited impact on poverty reduction and growth.

19. **The government intends to take a medium-term perspective in its efforts to keep public finances under control.** The fiscal deficit will be brought below 5 percent in 2013 and 4 percent by 2015, in keeping with initial program objectives. To ensure that this objective of keeping public finances under control is widely shared, the government will propose to parliament to discuss in autumn 2012 the medium-term outlook on the basis of documents disseminated with the draft budget law for 2013. The measures described above to scale back the cost of running the government will have their full effect in the medium term and will ensure the sustainability of the considerable effort to compress current expenditure that will be made in 2012. The measures will be accompanied by a streamlining of policies to subsidize certain sectors or population groups so as to improve the policies' targeting and effectiveness. The cost of supporting energy prices (electricity, petroleum products) has become exorbitant for public finances, amounting to about CFAF 150 billion in 2012. This price support (including for food prices and water) will be reconsidered in the months ahead, with a view to replacing it with measures that better target the poorest (extension of the social safety net, for example). The reduced taxation of households will also make it possible to support purchasing power in a period of subsidy reductions.

20. **With support from the World Bank, the government will streamline expenditure in the education, health, and agriculture sectors.** Awarding scholarships or other aid to all students is not sustainable in a poor country like Senegal. After completion of the civil service audit the government undertakes to streamline the recruitment and management of educational personnel. The government will also work to increase the effectiveness of expenditure in the health area and to improve the targeting of agricultural subsidies. A seminar on these topics was organized with the World Bank in June.

21. **A prudent borrowing policy will also contribute to safeguarding the sustainability of the public debt; it will be guided by a medium-term debt management strategy.** Concessional resources mobilized from donors and recourse to domestic/regional financing raised through auctions will continue to be the main financing sources. Because of the delay with establishing the new Public Debt Directorate (DDP), it will no longer be possible to finalize the medium-term debt strategy before June 30, 2012. The government is now targeting having a draft by mid-August 2012 and the final version of the strategy by September 30, 2012, so it can be annexed to the draft budget law for 2013. The resources remaining from the Eurobond issue (CFAF 57 billion) will be used for financing investment

projects in the energy sector and the government contribution to the toll highway to Diamniadio and its extension to the new airport.

C. Raise Revenue to Create More Fiscal Space for Financing Priority Spending

22. **The government is resolved to implement an ambitious reform of the tax system in 2013.** This reform will make it possible to have a simpler, more transparent and efficient tax system, and will reduce tax exemptions in favor of a general regime with a better incentive structure. The work on the reform of the General Tax Code (CGI) will continue in accordance with the established timetable. The tax administration has completed the technical work initiated in consultation with representatives of the private sector and labor unions. Preparation of the new draft code is well underway, and it should be completed by July 31, 2012. Prior to adoption of the new CGI by the Council of Ministers, it is planned to organize a feedback seminar for the various stakeholders, a process that will also make it possible to broaden the scope of the consultation to involve parties that did not participate in the technical work (technical and financial partners, civil society, academia, etc.). With the same view to improving information and consultation, a strategy note for the public, presenting the objectives and broad outlines of the tax reform, was sent to the Council of Ministers and was published on the Internet sites of the Ministry of Economy and Finance and the Directorate-General of Taxes and Government Domains (DGID). Finally, as the new code should enter into force on January 1, 2013, the related draft will be submitted to Parliament no later than end-September 2012 so that it could be included in the draft budget law for 2013. The use of withholding will be substantially reduced and the repayment system of VAT tax credit will be improved.

23. **The modernization of the tax administration is ongoing.** As part of the implementation of the tax administration modernization plan, a sweeping program to reform the DGID was initiated, aimed, among other objectives, at the reorganization of the general directorate and better taxpayer classification. With regard to streamlining the organization of the DGID's external units, by end-2012 a large enterprise directorate will be created as well as interregional operational directorates located in Dakar and selected larger cities throughout the country. The taxpayer classification effort is now under way, beginning with the first Center for Mid-Sized Enterprises already in place and scheduled to be fully operational by July 2012. Moreover, the efficiency of the taxpayer registration procedure is currently being improved with technical assistance from the IMF. Not only will these efforts facilitate the management of taxpayers, they will also promote the exchange of computerized data between the DGID and the other units of the Ministry of Economy and Finance and the ANSD. A memorandum of understanding between the DGD and the DGID will be signed by end-August 2012. Modernization of tax procedures is underway in particular with the implementation of online procedures. A new platform (to be introduced by January 1, 2013) will allow taxpayers registered in the SIGTAS to submit their tax declarations online. After

the online declarations, online payments will be introduced (by end-2013). A close cooperation of all relevant offices will be needed to implement this measure.

24. **Modernization of the customs administration is also in progress.** The Directorate-General of Customs (DGD) is continuing to implement the reforms set forth in the 2011-2013 Strategic Plan, expressed in the form of commitments in the Performance Contract signed with the Ministry of Economy and Finance. These reforms target improving the DGD's contribution to the collection of budgetary resources, strengthening partnership with businesses, automating customs clearance procedures, streamlining human, material and financial resources, and instilling new dynamism into the agency's communications policy. To this end, an action plan will be implemented to mobilize customs revenues; the plan entails speeding up formalities at the level of the first-line units and strengthening controls following customs clearance. Special emphasis will be placed on the collection of customs debts, in particular suspended VAT, and the control of custom duty suspension regimes. Similarly, in the context of streamlining tax expenditures, the agency has initiated a reform of Decree No. 83-504 of May 17, 1983 on the conditions for applying duty-free entry. Such a measure should make it possible to reduce considerably the revenue shortfalls arising from exemptions. At the same time, the DGD will continue to strengthen its surveillance mechanism by applying new mapping for surveillance throughout the territory and deploying an electronic surveillance system for goods in transit. Following implementation and stabilization of the new comprehensive version of GAINDE, the DGD began the computerization phase of customs-clearance procedures. Customs also intend to contribute further to improving the business climate through the reform of the economic regimes, as well as the implementation of the Special Partners Program, the aim of which is to offer personalized procedures to businesses. In this same vein, the draft reform of the customs code is being worked on and should be finalized by December 31, 2012.

D. Strengthen Public Financial Management and Governance

25. **Improving public finance management is one of the priorities of the new government.** The process of implementing the directives of WAEMU's new harmonized framework for public financial management is under way. The transposition has been completed for four directives (organic law on budget laws (LOLF), government accounting, government chart of accounts, and table of government financial operations). The decree on transposition of the directive on budget nomenclature will be issued by end-September 2012. Regarding the directive on a transparency code, the draft law will be adopted by end-June 2012 by the Council of Ministers. A fiscal and financial reform plan (PRBF) 2012-2014 updating the PRBF 2008-12 addressed the weak points identified by the Public Expenditure and Financial Accountability Assessment (PEFA) of June 2011. The PRBF, intended to be open and dynamic, is being validated by the various development stakeholders and partners. Its implementation will ultimately improve the government financial management system in

keeping with PEFA indicators and lay down the conditions for applying the new harmonized framework for public financial management by 2017. The efforts made with regard to the preparation of government accounts will be continued with a draft budget execution law for 2011and they will transmitted to participants with the draft budget law for 2013. The draft organic law on the Audit Court will be brought in line with international best practices and adopted by the government by end-July 2012. The new payroll management software will be tested by end-June 2012. The proposed targeted date for integrating the wage bill into SIGFIP is end-August 2012. Recourse to budget reallocations by decree will be strictly limited.

26. **Transparency in the real estate transactions with private parties of government property will be increased.** To improve transparency in real estate transactions and advertisement of the sales of government property, the computerization of the system will be strengthened and reinforced in the Urban Property Management Project. Computerization of the property registers will begin with the Office of Property Conservation of Dakar-Plateau starting in 2013 and will continue in the regions in 2014. With effect from 2012, the Ministry of Economy and Finance will publish, annually on a website accessible by the public, all information relating to the number of files involving final property sales from the government property, indicating the land areas sold, the geographic location of the land, and the corresponding revenue received. Finally, with effect from June 1, 2012, the collection of property revenue in the Dakar region must be electronically processed in SIGTAS; computerization for the remainder of the territory will be completed by end-2012. At the same time, all payments made since January 1, 2012, will be regularized in SIGTAS.

27. **The survey and streamlining of government agencies and other budgetary units will be accelerated.** The Agency Evaluation Commission has begun its work and the following decisions have been taken: (i) comprehensive census of the agencies and similar bodies through consolidation of the respective files of the Parapublic Sector Directorate (DSP), the State Reform Delegation (DREAT), and the Directorate-General of Finance. This file is already available but is subject to modification as supplementary investigations are conducted; (ii) proposals for an initial list of agencies to be eliminated on the grounds of streamlining administrative organization and budgetary savings; and (iii) conduct of a study for the other agencies and comparable bodies and, in light of its results, proposals on appropriate measures (rehabilitation, restructuring, regrouping, elimination, etc.) by end-2012.

28. **Progress has been made in the process of investment project preparation and evaluation, but this effort should proceed more rapidly.** With Decree No. 2012-437 on allocating government units, a planning unit has been created within every ministry. A guide on the preparation of projects/programs is now being disseminated. Its use will make it possible to prepare projects in accordance with a cohesive approach that will result in better

documentation that includes the data necessary for evaluation purposes. Every new project submitted for inclusion in the investment budget will be analyzed by the submitting ministry when it has an operational planning unit (Education, Healthcare, Environment, Agriculture), then jointly with the Ministry of Economy and Finance. This analysis will be strengthened by a cost-benefit analysis, once the evaluation guide is available and the relevant staff are trained in its use (end-December 2012). Two or three completed projects will be selected each year for purposes of conducting impact analyses. This will make it possible to draw lessons from experience and consolidate the gains achieved.

29. **While progress has been made, there has been some delay with implementing the Single Treasury Account.** The survey and streamlining of the creation and management of government agencies are part and parcel of implementing the Single Treasury Account strategy, and effectively are the first aspect thereof. The second is the survey and streamlining of bank accounts. There have been delays with respect to this survey owing to insufficient cooperation on the part of the stakeholders. The recent acceleration of work on the agencies should, however, facilitate its completion, and the government currently is working toward finalization of closing unnecessary bank accounts by end-February 2013. The third aspect involves the effort to ensure the opening of Treasury accounts for all public bodies receiving budget subsidies. Along these lines it is worth mentioning the recently introduced obligation to submit quarterly cash flow plans in order to rationalize cash outflows, in particular to the banking system. While this measure has not systematically been observed, it has greatly contributed to limiting the amount of idle cash resources held with banks. Here, the effort will focus on ensuring compliance by all parties concerned.

E. Private Sector Development

Energy sector

30. **Delays have occurred with the implementation of Plan Takkal.** Some steps in the execution of investments took more time than anticipated. For example, the arrival of more efficient units to replace the rented power generation groups was delayed by several months, with a negative impact on operating costs. Nevertheless, the measures carried out, in particular securing the fuel supplies to Senelec and the rental of 150 MW, made it possible to address the electricity production shortfall and, in consequence, reduce power outages, the occurrence of which is now explained only by transitory disruptions on the grid. As regards managing demand, a major program for installing low consumption lamps has been initiated. It still needs to be consolidated to reduce peak consumption and promote a reduction in the electricity bills of the poorest, while reducing Senelec's operating costs.

31. **The plan to reform the electricity sector has recently been re-examined.** An assessment of the Plan Takkal was conducting in the second half of May 2012 and involved the major stakeholders in the sector. Its key objective was to conduct, on the basis of past

performance and identified shortcomings a critical review of all components of the plan to define appropriate corrective measures and/or adopt new strategies. Appropriate measures will be taken to make up for the delay in investment implementation. Moreover, the emphasis will be placed on the weak points of the plan, including rehabilitation of the transmission and distribution grids, whose poor state is a major handicap; the plan of operational and financial restructuring of Senelec, which will be prepared by end August 2012 and whose implementation will begin immediately; an institutional reform and, if necessary, a rebalancing of the roles of APIX and Senelec, and other alternative strategic options will be also explored to avoid excessive reliance on coal. An action plan on the subsidies to electricity consumers will be prepared also by end-August 2012 and implemented by early 2013. A plan for the operational and financial restructuring of SENELEC will also be prepared by end-August 2012, and it will be implemented immediately.

Financial sector

32. **The financial sector reforms are on course.**

- The draft law regulating credit registries was discussed by the Council of Ministers in January 2012 and forwarded to the Parliament for adoption. The next steps are expected to be defined by a working party to be established jointly with the BCEAO in accordance with the recommendations of the regional conference on credit rating agencies within WAEMU held in May 2012. This working party should lay down a roadmap designed to lead to a uniform subregional framework.

- The draft law on financial leasing was adopted and promulgated in January 2012. The next steps are: (a) publicize the law among bankers, SMEs, and the legal and tax administrations; and (b) introduce a registry of guarantees.

- The final report assessing the performance of Poste Finances over the 2006-2010 period has been submitted; its main recommendation is to upgrade Poste Finances within two-year by improving its management, restoring third-party assets, and recapitalizing the parent company before contemplating eventual conversion into a credit institution.

- The report on the study on the rationalization of resources dedicated to micro-finances was prepared. The main recommendations of the study include the need for a systematic assessment of projects and programs and reinforcement of the supervision of the sector.

IV. Program Monitoring

33. In view of the discussion in the preceding sections, it would appear necessary to make a number of changes in the modalities of program monitoring. We propose making symmetrical the adjuster on the fiscal deficit in the event that concessional resources exceed or fall short of program forecasts. It is further proposed to revise the floor on the 2012 fiscal deficit upwards (starting with the floor for end-June 2012) and to reschedule the program measures that have not yet been implemented. Indicative targets for 2013 are proposed. The fourth review of the PSI–supported program should normally be completed by end-December 2012 and the fifth review by end-June 2013.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2011 [1]
(CFAF billions, unless otherwise specified)

	June 30, 2011			September 30, 2011			December 31, 2011		
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status
Assessment criteria									
Floor on the overall fiscal balance [2 3]	-237	-155	*met*	*-355*	*-318*	met	-427	-455	not met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) [4]	500	300	*met*	500	*300*	met	500	300	met
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	*met*	*0*	*0*	met	0	0	met
Ceiling on government external payment arrears (stock) [4]	0	0	*met*	*0*	*0*	met	0	0	met
Ceiling on the amount of the budgetary float	50	45	*met*	50	*40*	met	50	50	met
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	30	0	*met*	30	*0*	met	44	0	met
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*6*	*met*	*20*	*47*	not met	*20*	*16*	met
Floor on social expenditures (percent of total spending)	*35*	*41*	*met*	…	…	…	*35*	*37*	met
Maximum upward adjustment of the overall deficit ceiling due to									
Shortfall in program grants relative to program projections	*15*	…	…	*15*	…	…	*15*	…	…
Excess in concessional loans relative to program projections	*70*	…	…	*70*	…	…	*50*	…	…
Excess in energy sector and autoroute investment relative to program projections	…	…	…	…	…	…	*50*	…	…
Memorandum items:									
Program grants	19	35	…	28	37	…	37	37	…
Concessional loans	114	88	…	170	…	…	210	175	…
Investment in the energy sector and the autoroute [5]	…	…	…	…	…	…	66	66	…

[1] Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.
[2] Cumulative since the beginning of the year.
[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.
[4] Monitored on a continuous basis.
5/ Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Table 2. Quantitative Assessment Criteria and Indicative Targets for 2011–12 [1]

(CFAF billions, unless otherwise specified)

	December 31, 2011			March 31, 2012			June 30, 2012	September 30, 2012	December 31, 2012
	Prog.	Actual	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.
Assessment criteria									
Floor on the overall fiscal balance [2] [3]	-427	-455	not met	*-102*	*-70*	met	-231	*-347*	-463
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	300	met	500	300	met	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	met	0	0	met	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	0	met	*0*	*0*	met	0	*0*	0
Ceiling on the amount of the budgetary float	50	50	met	*50*	*49*	met	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	0	met	44	0	met	44	44	44
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*16*	met	*20*	*14*	met	*20*	*20*	*20*
Floor on social expenditure (percent of total spending)	*35*	*37*	met	…	…	met	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling due to									
Shortfall in program grants relative to program projections	15	…	…	15	…	…	15	15	15
Excess in concessional loans relative to program projections	50	…	…	50	…	…	50	50	50
Excess in energy sector and autoroute investment relative to program projections	50	…	…	50	…	…	50	50	50
Memorandum items:									
Program grants	37	37	…	9	…	…	19	28	32
Concessional loans	210	175	…	52	…	…	105	157	328
Investment in the energy sector and the autoroute [5]	66	66	…	*44*	…	…	81	*122*	162

[1] Indicative targets for March and September 2012, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

[2] Cumulative since the beginning of the year.

[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.

[4] Monitored on a continuous basis.

[5] Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Table 3. Quantitative Assessment Criteria and Indicative Targets for 2012–13 [1]

(CFAF billions, unless otherwise specified)

	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	Prog.	Proj.	Proj.	Proj.	Proj.
Assessment criteria					
Floor on the overall fiscal balance [2] [3]	-463	*-92*	-184	*-275*	-367
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	500	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	*0*	0	*0*	0
Ceiling on the amount of the budgetary float	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	44	44	44	44
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	35	…	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling owing to					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
Excess in energy sector and autoroute investment relative to program projections	50	50	50	50	50
Memorandum items:					
Program grants	32	8	16	24	34
Concessional loans	328	82	164	246	282
Investment in the energy sector and the autoroute [5]	162	…	…	…	…

[1] Indicative targets for March and September 20132, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

[2] Cumulative since the beginning of the year.

[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.

[4] Monitored on a continuous basis.

[5] Investment in the autoroute plus investment under the plan Takkal financed from internal and external concessional resources.

Table 4: Structural Benchmarks, 2011-2012

Measures	MEF P§	Implementation date	Benchmark for review	Macroeconomic significance	Status
CONTAIN FISCAL DEFICIT					
Adoption by the Council of Ministers of the Budget Execution Law (LFR) for 2012		June 20, 2012	Prior action	Macroeconomic stability	Met
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT					
Prepare an evaluation guide for productive projects	28	March 31, 2012	3rd Reset to 5th	Improve investment planning	Not met. Reprogrammed at end-2012
Operationalize the new public debt directorate	5	January 15, 2012	3rd	Improve debt management	Completion expected by June 30, 2012
Prepare a medium-term debt strategy	21	June 30, 2012	3th Reset to 4th	Improve debt management	Reprogrammed at end-September 2012
Finalize the new general tax code and submit it to Parliament	22	September 30, 2012	4th	Increase the own resources of the State and encourage private sector development	In progress
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT					
Make use of the national registration number for businesses and associations (NINEA) mandatory for customs operations	5	January 1, 2012	3rd	Modernize tax administration	Met
Launch and complete a comprehensive survey of agencies and their missions	27	January 31, 2012	3rd	Strengthen public financial management	Met, with delay (May 2012)
Produce a plan for restructuring all agencies and comparable entities	27	December 31, 2012	5th	Strengthen public financial management	New
Finalize the Single Treasury Account	29	February 28, 2013	5th	Strengthen public financial management	New

PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE, AND ENHANCING EFFICIENCY OF THE FINANCIAL AND ENERGY SECTORS					
Publish complete information on: (i) the Energy Sector Support Fund (FSE); (ii) projects; (iii) status of planning and execution; (iv) financing details and updated costs of works; and (v) the position of the escrow account, on a monthly basis within two weeks following the end of the month, on a specialized website of the government		July 31, 2011	2nd	Improve the transparency of infrastructure-related investments	Continuous
Finalize an initial audit of the use of the resources allocated to the highway extension, three months after the start of the works, and publish the report on the government's website	5	April 30, 2012	3rd	Improve the transparency of infrastructure-related investments	Not met
Finalize a study to analyze the resources allocated to the microfinance sector and their impact, with a view to rationalizing them	32	January 31, 2012	3rd	Streamline the support for the microfinance sector	Met
Adopt an action plan on the subsidies to electricity consumers	30	April 30, 2012	3rd Reset to 4th	Energy sector development	Not met. Reprogrammed for end-August 2012

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, June 22, 2012

1. This technical memorandum of understanding (TMU) defines the quantitative assessment 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 2011-2013. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for end-June 2012 and end-December 2012, and the quantitative indicators for end-September and for 2013, are shown in Tables 2 and 3 of the MEFP, respectively. The prior actions and structural benchmarks established under the program are presented in Table 4.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government

3. Unless otherwise indicated, "government" means the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

B. Overall Fiscal Balance (Program Definition)

Definition

4. The overall fiscal balance including grants (program definition) is the difference between the government's total revenue (revenue and grants) and total expenditure and net lending. The operations of the Energy Sector Support Fund (FSE) are integrated in the government flow-of-funds table (TOFE). The revenues exclude privatization receipts and sales of mobile phone licenses or of any other state-owned assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (dépenses ordonnancées prises en charge par le Trésor) and expenditures executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance including grants as of the beginning of the year.

Example

5. The floor on the overall fiscal balance including grants (program definition) as of December 31, 2011, is CFAF 427.3 billion. It is calculated as the difference between total government revenue (CFAF 1545.5 billion) and total expenditure and net lending (CFAF 1972.8 billion).

Adjustment

6. The overall fiscal balance including grants is adjusted downward by the amount that budget grants fall short of program projections up to a maximum of CFAF 15 billion at current exchange rates (see MEFP Tables 1and 2).

7. The overall fiscal balance including grants is adjusted downward/upward by the amount that concessional loans exceed/fall short of their programmed amount, up to a maximum of CFAF 50 billion at current exchange rates (see MEFP, Tables 1 and 2). For the purposes of this assessment criterion, concessional loans denominated in CFAF and in foreign currency are taken into account.

8. The overall fiscal balance including grants is adjusted upwards/downwards by the amount that the investment for the energy sector and the autoroute financed with domestic resources exceeds/falls short of the programmed amounts indicated in tables 2 and 3 of the MEFP. The upward adjustment is capped at CFAF 50 billion.

Reporting requirements

9. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days. Data on revenues and expenditure that are included in the calculation of the overall 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. Social Expenditure

Definition

10. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. This criterion is set as a floor in percent relative to total spending (including the FSE) excluding capital expenditure related to the extension of the autoroute and the Plan Takkal investment projects.

Reporting requirements

11. The authorities will report semiannual data to Fund staff within two months following the end of each period.

D. Budgetary Float

Definition

12. The 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 criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

13. The authorities will transmit 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.

E. Spending Undertaken Outside Simplified and Normal Procedures

14. This assessment criterion is applied on a continuous basis to any procedure other than the normal and simplified procedures to execute spending. It excludes only spending undertaken on the basis of a supplemental appropriation order (décret d'avance) in cases of absolute urgency and need in the national interest, in application of Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and Prime Minister.

15. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 13, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Government External Payments Arrears

Definition

16. External payments 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 18 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

17. The authorities will promptly report any accumulation of external payments arrears to Fund staff.

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

19. Definition of debt. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) The term "debt" will be understood to mean a direct, i.e., non-contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a given repayment schedule; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
   i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
   ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
   iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

19. **Debt guarantees**. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

20. **Debt concessionality**. For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), published by OECD.[3] For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

21. **External debt**. For the purposes of the relevant assessment criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

22. **Debt-related assessment criteria.** The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, local governments, SENELEC, the Energy Sector Support Fund (FSE), and any other public or government-owned entity. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The assessment criteria are measured on a cumulative basis from the time of approval of the PSI by the Executive Board. ACs will be monitored on a continuous basis. No adjuster will be applied to these criteria.

23. **Special provisions***:*

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[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

a) The assessment criteria do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the PSI; (ii) debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport; and (iii) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.

b) A total ceiling of US$500 million applies over the period 2011—13 for nonconcessional external debt financing tied to the toll highway to Diamniadio and its extension to the Diamniadio-International Airport Blaise Diagne/Thiès/Mbour or investments in the energy sector. The nonconcessional funds obtained in this way will be deposited in a special account from which only such highway-related payments and energy sector investments provided in Plan Takkal will be made. Following the issuance of a US$500 million Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2011-13 is US$ 200 million (equivalent to the amount of the 2009 bonds actually redeemed or exchanged in 2011).

c) A separate ceiling equivalent to CFAF 44 billion in 2011-13 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

24. 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, but no later than within two weeks of such external debt being contracted or guaranteed.

G. Public Sector Contracts Signed by Single Tender

Definition

25. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity 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. The quarterly indicative target will apply to total public sector contracts entered into by the government or any entity subject to the procurement code. The

ceiling on contracts executed by single tender will exclude fuel purchases by SENELEC for electricity production. This exclusion reflects new regulation, which requires SENELEC to buy fuel directly from SAR based on the existing price structure.

Reporting requirements

26. 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 public sector contracts and the total value of all single-tender public sector contracts.

III. Additional Information for Program Monitoring

27. The authorities will transmit the following to Fund staff, in electronic format if possible, with the maximum time lags indicated:

(a) 3 days after adoption: any decision, circular, edict, supplemental appropriation order, ordinance, or law having economic or financial implications for the current program. This includes in particular all acts that change budget allocations included in the budget law being executed (for instance: supplemental appropriation orders (*décrets d'avance*), cancellation of budget appropriations (*arrêtés d'annulation de crédit budgétaires*) and orders or decisions creating supplemental budget appropriations (*décrets ou arrêtés d'ouverture de crédit budgétaire supplémentaire*).

(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 on a monthly basis;

The monthly amount of expenditures committed, certified, and for which payment orders have been issued;

The quarterly report of the Debt and Investments Directorate (DDI) on the execution of investment programs;

The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;

The provisional monthly balance of the Treasury accounts; and

Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues," between the consolidated Treasury accounts and the TOFE for "total expenditure and net lending," and between the TOFE and the net government position (NGP), on a quarterly basis.

The amount of checks issued by agencies but not paid to beneficiaries with the dates of issuance of the checks.

(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.

28. During the program period, the authorities will transmit to Fund staff provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances on a monthly basis 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.

29. The central bank will transmit to Fund staff:

The monthly balance sheet of the central bank, with a maximum lag of one month;

The consolidated monthly balance sheet of banks with a maximum lag of two months;

The monetary survey, on a monthly 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 Institution Compliance with the Prudential Framework), on a quarterly basis, within a maximum delay of two months.

30. The government will update on a monthly basis on the website established for this purpose the following information:

a) Preliminary TOFE and transition tables with the delay of 2 months.

b) SIGFIP execution table, the table for the central government and a summary table including regions, with the delay of 2 weeks

c) The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with the delay of 1 month.

d) Full information on: (i) the operations of Energy Sector Support Fund (FSE); (ii) Plan Takkal investment project; (iii) planning and execution of these projects; (iv) details of financing and updated costs; and (v) the balance of the escrow account with the resources of the Eurobond issued in 2011 allocated to the Takkal project (within 3 weeks).

e) Full information on: (i) the status of the projects related to the extension of the autoroute to Diamniadio, AIDB, Mbour and Thies; (ii) costs of the projects and their updates; (iii) financing and cost of financing linked to the projects; (iv) the balance of the escrow account with the resources of the Eurobond issued in 2011 and allocated to the extension of the autoroute (with the delay of 3 weeks).

INTERNATIONAL MONETARY FUND

SENEGAL

Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria-Informational Annex

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

Approved by Roger Nord and Thomas Dorsey

June 26, 2012

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR 134.52 million (83.14 percent of quota) at end-May 2012.

- **Joint Management Action Plan Implementation.** Describes Bank-Fund collaboration.

SENEGAL: RELATIONS WITH THE FUND
(As of May 31, 2012)

I. Membership Status: Joined: August 31, 1962; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	161.80	100.00
Fund holdings of currency (Exchange Rate)	159.97	98.87
Reserve Tranche Position	1.85	1.14

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	154.80	100.00
Holdings	130.20	84.11

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	121.35	75.00
ECF Arrangements	13.17	8.14

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Dec 19, 2008	Jun 10, 2010	121.35	121.35
ECF 1/	Apr 28, 2003	Apr 27, 2006	24.27	24.27
ECF 1/	Apr 20, 1998	Apr 19, 2002	107.01	96.47

1/ Formerly PRGF.

VI. Projected Payments to Fund 1/
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2012	2013	2014	2015	2016
Principal	1.73	3.47	11.56	24.15	25.66
Charges/Interest	0.02	0.34	0.35	0.31	0.25
Total	1.75	3.80	11.90	24.46	25.90

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jun 2000
Assistance committed by all creditors (US$ Million) 1/	488.30
Of which: IMF assistance (US$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	Apr 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.80
Interim assistance	14.31
Completion point balance	19.49
Additional disbursement of interest income 2/	4.60
Total disbursements	38.40

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)1/	100.32
Financed by: MDRI Trust	94.76
Remaining HIPC resources	5.56

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
January 2006	N/A	100.32	100.32

1/ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. Such committee was established after the completion of the assessment following the Institutional Reform of the WAMU and the BCEAO. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

X. Exchange System:

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

The authorities confirmed that Senegal had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund if any such measure is introduced.

Aspects of the exchange system were also discussed in the report “WAEMU: Common Policies of Member Countries" (SM/12/2012).

XI. Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on May 24, 2010 (Country Report No.10/165). In concluding the 2010 Article IV consultation, Executive Directors welcomed the broadly satisfactory implementation of the Senegalese authorities’ economic program supported under the PSI and the ESF. While Senegal’s risk of debt distress is low, Directors underscored the need to gradually withdraw the temporary fiscal stimulus and reduce the budget deficit to a level consistent with debt sustainability. They welcomed the authorities’ plans to further strengthen revenue collection and stressed that spending pressures had to be contained to preserve macroeconomic stability and debt sustainability and meet the WAEMU convergence criteria, while safeguarding priority spending. Directors supported efforts to reform public financial management and emphasized the need to maintain the reform momentum. They encouraged the authorities to improve their liquidity and debt management to complement the increasing integrity of their budget framework and expressed concern about program slippages that indicate that closer attention needs to be paid to spending procedures and control mechanism. Directors saw room for further strengthening the authorities’ investment planning and evaluation with a view to ensuring high productivity of government spending. They underscored the need to overcome the weak export performance and to improve competitiveness through a more supportive business climate and better governance that would stimulate private-sector growth. Directors underlined that other complementary policies need to be put in place to regain Senegal’s growth momentum and return to previous growth trajectories. Sustained efforts are required to enhance the financial sector’s contribution to the economy. Directors also encouraged the authorities to implement their energy sector reform plan to limit supply bottlenecks and fiscal risks.

XII. Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation:

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in June 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in the second half of 2007.

A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002. An FAD mission conducted a ROSC on the fiscal transparency module in January 2005.

XIII. Technical Assistance:

A. AFRITAC West

Year	Area	Focus
2003	Debt management and financial markets Microfinance	Upgrading of information systems; techniques of external debt management Initiate work with BCEAO and donors
2004	Public expenditure management Debt management and financial markets	Workshop Evaluation of software for improving debt management; workshop on AML/CFT
	Public expenditure management Debt management and financial markets	Decentralization; evaluation of TA needs Assessing need for capacity improvement
2005	Macroeconomic statistics Microfinance	Making fiscal data conform to WAEMU and other international norms Inspection and control; workshop on good governance; training of government supervisory personnel
2006	Customs administration Tax administration Macroeconomic statistics National accounts Microfinance	Software risks Reforms and TA needs Evaluating implementation of prior TA and future needs Work program for improvement and statistical action plan Supervision

Year	Area	Focus
2007	Customs administration Tax administration Debt management and financial markets Macroeconomic statistics National accounts Microfinance	Risk analysis and control Modernization Assessing TA needs; regional workshop on external debt statistics Public finance statistics Institutional sectors and quarterly national accounts; regional workshop on government accounts Supervision
2008	Debt management and financial markets National accounts Microfinance	DSA workshop Institutional sector and quarterly national accounts Supervision and organization
2009	National accounts Tax administration Debt management Microfinance Macroeconomic and financial statistics	Quarterly national accounts (QNA) Status of the reform and scope for further TA Strengthening public debt management Strengthening microfinance supervision Enhancing production and dissemination of public finances statistics
2010	Debt management National accounts Customs administration Tax administration Customs administration	Strengthening public debt management Quarterly national accounts (QNA) Risk analysis and audit Tax administration modernization Follow-up mission
2011	National accounts Customs administration Public Expenditure Management Debt management Tax administration	Quarterly national accounts (QNA) Risk analysis and audit Strengthening of PFM information systems Strengthening public debt management Establishment of medium-sized enterprise tax center
2012	Tax administration National accounts Customs administration Public Expenditure Management	Identification and registration of tax payers Quarterly national accounts (QNA) Risk analysis and audit Public accounting system

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	Sept. 2001	Staff/consultant	Assessment of capacity to track poverty-reducing expenditures
	Feb. 2004	Staff	Fiscal reporting
	Nov. 2004	Staff	PSIA—Poverty and social impact analysis
	Jan. 2005	Staff	ROSC
	Jan. 2008	Staff	Public-Private Partnerships
	Feb.2008	Staff	PSIA—Poverty and Social Impact Analysis
	Oct. 2008	Staff/AFRITAC	Public financial management
	April 2009	FAD Expert	Public financial management
	Nov. 2009	Staff/AFRITAC	Revenue administration
	Jan. 2010	FAD Expert	Review of the expenditure chain
	Feb. 2010	Staff/AFRITAC	Public financial management
	July 2010	FAD Expert	PFM (Treasury Single Account and cash forecasts)
	Oct. 2010	Staff/Expert/AFRITAC	Revenue administration
	Nov. 2010	Staff/Expert	Review of tax policy and tax expenditures
	Dec. 2010	Staff	Public financial management and accounting (state, PEs, agencies)
	May 2011	FAD Expert	Public financial management
	June 2011	AFRITAC	Tax administration
	Sept. 2011	Staff /Expert	Revenue administration
	Nov. 2011	FAD expert	Decentralization of budget authority
	Dec. 2011	FAD expert	Consolidation of accounts
	Jan. 2012	FAD Experts	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	March 2012	FAD Experts	PIT and Taxation of the Banking and Telecoms Sectors
Monetary and	Sept. 2006	Staff	Bank supervision and regulation

Department	Date	Form	Purpose
Capital Markets	Sept. 2010	Staff	Needs assessment
	Jan.-Feb. 2011	Staff/ Expert/World Bank	Medium-Term Debt Strategy (MDTS)
Statistics	Sept. 2001	Staff	ROSC assessment of data
	July 2002	AFRISTAT	Real sector statistics assessment under GDDS West Africa project
	Aug. 2002	AFRISTAT	National accounts assistance under GDDS West Africa project.
	Aug. 2002	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	Dec. 2002	AFRISTAT	Continued assistance with national accounts and prices statistics under GDDS West Africa project
	Feb. 2003	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	March 2006	Staff	Real sector statistics
	March 2006	Staff	Government finance statistics
	Nov. 2008	Staff	SDDS assessment
	April 2009	Staff	Government finance statistics
	Aug. 2011	Staff	National accounts
	Nov. 2011	Staff	Monetary and financial statistics
Legal	Jan-Feb 2012	Staff	Tax law

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Ms. Valeria Fichera since September 2009.

XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS's Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana. The report highlighted several areas of weaknesses in the AML/CFT system, confirmed by a score of 12 Non-Compliant and 16 Partially Compliant ratings out of the 40+9 FATF AML/CFT Recommendations. In May 2009 Senegal joined the Egmont Group of Financial Intelligence Units (FIUs). The FIU publishes on its website statistics on suspicious transaction reports received, the number of cases transmitted to the judiciary, and the number of convictions. Senegal's Fourth Follow-Up Report was discussed at GIABA's May 2012 Plenary. It acknowledged that progress is being made, and encouraged Senegal to continue making improvements. At the same time it was agreed that Senegal will submit its Fifth Follow-Up Report to the May 2013 Plenary.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION
World Bank and IMF Collaboration

<table>
<tr><th>Title</th><th>Products</th><th>Provisional timing of missions</th><th>Expected delivery date</th></tr>
<tr><td colspan="4">A. Mutual information on relevant work programs</td></tr>
<tr><td>World Bank</td><td>Public Expenditure Review</td><td>Validation workshop</td><td>June 2012</td></tr>
<tr><td></td><td>Public Finance Management Technical Assistance</td><td>June 2012</td><td></td></tr>
<tr><td></td><td>Development Policy Operation (DPO)</td><td>Continuous</td><td>Nov. 2012 (Board)</td></tr>
<tr><td></td><td>Policy notes for the new government</td><td>Continuous</td><td>May/June 2012 (drafts)
Sept. 2012 (final)</td></tr>
<tr><td></td><td>Energy sector credit</td><td>Continuous</td><td>July 2012 (Board)</td></tr>
<tr><td></td><td>Social protection policy notes</td><td>June 2012 (workshop)</td><td>Sept. 2012</td></tr>
<tr><td></td><td>Poverty assessment</td><td>Continuous</td><td>Dec. 2012</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="10">IMF</td><td colspan="3">IMF-supported program</td></tr>
<tr><td colspan="2">Third PSI Review mission, May 2-15, 2012</td><td>July 13, 2012 (Board)</td></tr>
<tr><td colspan="2">Fourth PSI Review and Article IV consultations mission, Sept. 6-19, 2012</td><td>Nov. 28, 2012 (Board)</td></tr>
<tr><td colspan="3">Technical Assistance</td></tr>
<tr><td rowspan="2">Revenue administration</td><td>HQ mission</td><td>Sept. 2012</td></tr>
<tr><td>Six short-term expert visits</td><td>FY 2013</td></tr>
<tr><td rowspan="3">PFM</td><td>A resident advisor at the Treasury</td><td>Until Sept. 2013</td></tr>
<tr><td>HQ mission: budget execution, government accounting, fiscal reporting and cash management reforms</td><td>June 2012</td></tr>
<tr><td>FAD expert visits:</td><td>June, Oct 2012</td></tr>
</table>

		Decentralization of budget authority	Feb. 2013
		Central government accounting	Jan 2013
		Financial regime of autonomous agencies	Jan. 2013
		Program budgeting	Feb. 2012
		Wage bill budgeting forecasting	March 2013
		Capital expenditure forecasting	March 2013
	Tax policy	Personal income tax	June 2012
		Mining and tax exemptions	Feb. 2013
		VAT documents and exemptions	March 2013
	Fiscal law	VAT	June 2012
	Debt management	Debt issuance and communications	Sept.2012
		Public debt management	Sept. 2012
	Statistics	Migration to GFSM 2001	Sept.2012
		National accounts	Feb. 2013
B. Requests for work program inputs			
Fund request to Bank	Note on inclusive growth	Processed data on the 2011 household survey	June 2012
Bank request to Fund	Letter of comfort for the Senegal DPO		October 2012 (Board)
C. Agreement on joint products and missions			
Joint products	JSAN		Dec. 2012
	Joint DSA		Sept. 2012

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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Statement by the IMF Mission in Senegal

An International Monetary Fund (IMF) mission headed by Mr. Hervé Joly visited Senegal May 2-15, 2012 to conduct the third review of the three-year arrangement under the Policy Support Instrument (PSI), approved in December 2010. Members of the mission met with the President of the Republic, the Prime Minister, and the Ministers of Economy and Finance and of Energy, as well as representatives of the BCEAO, other senior government officials, and representatives of the private sector, civil society, and the development partners.

At the end of the visit, Mr. Joly made the following statement:

"The mission welcomes the determination of the new government to pursue the implementation of the program supported by the policy support instrument (PSI, 2011–13). The principal objectives of the program are to: (i) keep public finances under control so as to maintain macroeconomic stability; (ii) increase fiscal revenue with a view to creating greater fiscal space for the financing of priority expenditures; (iii) pursue the consolidation of public financial management and improve governance; and (iv) promote private sector development. These objectives are consistent with those of the new government. Senegal is, however, facing a difficult external environment, a resurgence of regional instability, and the impact of a severe drought on the population and the economy. These developments create the need to make adjustments in the implementation of the program without calling into question the program's guiding principles.

"Macroeconomic developments in 2011 were less positive than expected because of the drought in the Sahel region. The steep decline of agricultural production despite sound results in the other sectors of economic activity has limited GDP growth to 2.6 percent. Inflation stood at 3.4 percent in 2011, driven by the increase of food and transport prices, in a context of rising global commodity prices.

"An upturn in growth is anticipated in 2012, to 3.9 percent, notwithstanding a less favorable external environment. A recovery of agricultural production (assuming normal rainfall patterns) and public investment in infrastructure are expected to support growth. Inflation should remain moderate, at about 2.5 percent, in 2012.

“There was a significant slowdown at end-2011/early 2012 in the program’s implementation, in a tense pre-electoral context. The fiscal deficit target for 2011 was not met because of current expenditure overruns and tax revenue shortfalls. Progress was made in the implementation of structural reforms, but at a markedly slower pace than envisaged in the program.

“The discussions between the authorities and the mission focused on how to keep public finance developments under control. In the absence of remedial measures, the fiscal deficit could exceed 8 percent of GDP this year–clearly, an unsustainable level. There are several reasons for this situation, which will require different policy responses. The need to provide assistance to drought victims and the downturn in growth make the upward revision of the deficit target warranted. A large portion of the deficit’s widening appears, however, to stem from the provision of energy price subsidies (electricity tariffs , petroleum product), which are expected to reach the very high cost, for public finances, of CFAF 150 billion in 2012 (2 percent of GDP). The mission urges the authorities to replace these subsidies with measures that are more efficient and better targeted to the poorest segments of the population. Eventually, the 2012 deficit target was raised from 5.6 percent to 6.4 percent of GDP. The new target should be achieved through major efforts to reduce government current spending and the postponement of some non-priority capital expenditure. The government has also committed to make up for the late payments to the private sector accumulated before the presidential elections.

“The mission congratulates the authorities for their firm commitment to improve public governance, transparency, and the efficiency of public expenditure; it notes that steps in this direction have already been taken or announced, such as the reduction of the size of the government and the restructuring of agencies. The mission also welcomes the authorities’ confirmation of their intention to pursue the other key reforms in the program, in particular in the areas of taxation and energy.

“The conclusion of the third review of the program by the IMF Executive Board could take place in July 2011.”

Statement by Mr. Assimaidou on Senegal
Executive Board Meeting
July 13, 2012

1. Discussions under the third PSI review were held with the new Senegalese administration issued from the presidential elections that took place a few months ago. In support of its policy and reform agenda, the new government has reaffirmed its continuation of the country's close program relationship with the Fund and expressed its commitment to the PSI-supported program and to its objectives. Indeed, the PSI-supported program provides the authorities with a useful channel to implement their comprehensive reform agenda that encompasses notably public financial management, fiscal transparency, civil service, and public debt management*,* and financial and private sector development. In this endeavor, they are appreciative of the productive policy dialogue they held with Management and staff in Washington and Dakar. They look forward to Executive Directors' continued support for Fund's PSI engagement in Senegal and they are thankful for the continuous support provided by the Fund to Senegal.

2. Since the new administration took office, it has made major inroads in policy implementation, in line with the authorities' program commitments. In particular, significant adjustment efforts helped contain the fiscal deficit within its revised target. Moreover, the structural reform agenda is being advanced decisively, notably with a number of new benchmarks having recently been met. Going forward, Fund's program engagement will be key in helping the authorities cope with the daunting challenges facing the country, stemming from both the difficult external environment and domestic context shaped by large social demands following the elections.

Recent Achievements under the Policy Support Instrument

3. Amid a difficult policy environment, macroeconomic and debt management proceeded broadly in line with program commitments. Program implementation was marked at end-December 2011 by the observance of all quantitative assessment criteria but the one on the fiscal deficit which was missed, as current spending overshot and revenue fell short of targeted levels. More recently, the authorities' prudent policies helped meet all end-March 2012 quantitative assessment criteria and indicative targets set forth under the program.

4. On the structural front, strides were made in the implementation of the PSI reform agenda though with some delays over the initial program schedule. Notable progress was made toward program objectives, including modernizing tax and customs administration, further strengthening debt and public financial management, and improving supervision of the microfinance sector. Specific actions that contributed to these outcomes included notably the introduction of a unique taxpayer identification number in customs operations, the establishment of a new public debt bureau, the completion of a survey of agencies and public entities, and lessons learnt from an impact analysis of the resources allocated to the microfinance sector.

5. Sound program implementation is expected to contribute to a quick economic turnaround. In particular, after having significantly slowed down last year, economic activity

is expected to recover in 2012, notably on account of the implementation of supportive policies in the agricultural sector and public investment programs.

Policy and Reform Agenda for 2012 Onwards

6. Going forward, it is the authorities' firm intention to continue to make significant inroads in policy implementation with the aim of sustaining progress toward program objectives, namely maintaining macroeconomic stability, increasing fiscal space for priority spending, further strengthening public financial management and fiscal governance and transparency, and promoting private sector development.

Preserving Macroeconomic Stability

7. Macroeconomic stability will be safeguarded through prudent fiscal policy anchored on the authorities' strong commitment to keep fiscal deficit hovering around the level consistent with fiscal sustainability. While helping contain the rate of inflation below the related WAEMU convergence criterion, this policy stance is expected to lay the foundations for strong and sustained growth in the context of a stable macroeconomic environment. In this regard, the new authorities took prompt and resolute steps to enact fiscal adjustment, as a number of daunting challenges stood in the way of containing the fiscal deficit to sustainable levels, including the need to accommodate pressing social needs and drought relief measures and to mitigate the adverse impact of the weaker external environment on growth and revenue performance.

8. The timely policy response is expected to enable the achievement of the revised program deficit target of 6.4 percent of GDP in 2012. In this connection, the supplementary budget which was adopted last month by the Cabinet implied a significant spending adjustment, including large cuts in current expenditures and postponement of the launch of a number of public investment projects, particularly those that have yet to start or with limited positive impact on growth and poverty reduction. More specifically, several measures were taken in this regard, including the significant reduction of the number of ministries and public agencies as well as efforts to contain government consumption, notably in terms of communication and transportation services. Going forward, the authorities are determined to explore avenues for making more efficiency gains in government spending, notably by better targeting agricultural subsidies and rationalizing social sector outlays among others.

Building Fiscal space for Priority Expenditure

9. A number of actions are underway that are expected to boost revenue mobilization, thereby freeing additional space for priority spending. Most notably, the new authorities have expressed their intention to pursue the reform program aimed at streamlining tax legislation and incentives, improving the efficiency and transparency of the tax system, boosting tax revenue, and enhancing tax compliance. Progress on this front will entail the establishment of a new general tax code which is scheduled to be submitted to the parliament by end-September 2012 and enacted along with the 2013 budget. As part of the efforts to garner consensus among various stakeholders, the rationale and objectives of the reform program have already been put in the public domain.

10. Moreover, efforts to improve the efficiency of tax and customs administrations will be pursued, paving the way for Senegal's continued, strong revenue performance. In particular, the modernization of tax collection and customs operations continues to rank high on the agenda of these administrations. As a recognition of the steps taken by the customs administration to introduce innovative technologies, Senegal is a 2012 United Nations Public Service Awards winner in the category "Improving the Delivery of Public Services". Work is also underway to improve information-sharing between the tax directorate and other tax collecting entities reporting to the finance ministry such as customs administration. In parallel, steps will continue to be taken to improve the process of taxpayer registration and in this endeavor Fund technical assistance is greatly valued.

Strengthening Public Financial Management, Fiscal Transparency and Governance

11. Sound management of public finance ranks high among the authorities' priorities. To ensure full compliance with international standards and practices in this area, steady and decisive progress has been made toward implementing the six directives of WAEMU's harmonized public financial management framework. To date, four directives concerning budget laws, public accounting, central government operations summary table and chart of accounts have already been transposed. A decree transposing the fifth directive on budget classification is expected to be issued by the end of September 2012 whereas a draft law implementing the sixth directive on fiscal transparency was adopted last month by the Cabinet. The goal of further strengthening public financial management will also be served by the ongoing implementation of a Treasury single account which is scheduled to be finalized early in 2013.

12. In parallel, debt management is expected to be further strengthened, after the new public debt bureau became recently operational. To this end, the bureau will endeavor to finalize within the next few months a medium-term debt strategy which is expected to be annexed in the forthcoming budget law.

13. The authorities will persevere in their efforts to streamline government agencies. This work has already led to the reorganization and elimination of several public entities. Going forward, it is the authorities' intention to extend this exercise to all public agencies and similar entities and finalize it by the end of this year. A number of other notable steps underway or planned will further improve governance and transparency. These include ongoing efforts to improve transparency in the real estate transactions involving the State and to finalize guidelines for project evaluation.

Promoting Private Sector Development

14. One of the main objectives of the authorities' reform agenda is to foster the development of the private sector. While this agenda encompasses several areas, the reforms underway in the energy and financial sectors play a particularly important role in achieving this objective given their macrocriticality and major implications for program success. In the energy sector, a key priority for the new government upon taking office has been to assess the effectiveness of the emergency plan for the recovery and restructuring of the energy sector (*Plan Takkal*). Domestic and external stakeholders involved in the sector participated in this exercise which notably aimed at exploring ways of sustaining adequate electricity production and distribution. Going forward, the authorities will take steps to improve efficiency in the sector, thereby addressing the fiscal risks arising from it. In this regard, the ongoing work aimed at planning the restructuring of the electricity company and developing an action plan to reduce subsidies on electricity consumption will play a significant role in containing the adverse fiscal incidence of the sector.

15. Reforms undertaken in the financial sector will be pursued in collaboration with the regional central bank, BCEAO. In particular, these will bring about financial innovations and development, notably by laying the groundwork for financial leasing and credit rating services. Ultimately, it is expected that efforts in these areas along with those made in close collaboration with regional authorities to ease credit access will contribute to jumpstarting private sector development.

16. In conclusion, I call on Directors to support the completion of the third review of the PSI in light of the authorities' strong commitment to program objectives and their ambitious policy and reform agenda under the PSI. I would also appreciate Directors' support for the authorities' request for modification of the end-June and end-December 2012 assessment criteria and the waiver for nonobservance of the end-December 2011 assessment criterion on the overall fiscal deficit.