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SENEGAL

Sixth Review Under the Policy Support Instrument and Request for Modification of an Assessment Criterion—Staff Report; Informational Annex; Press Release and Executive Director's Statement

In the context of the Sixth Review under the Policy Support Instrument and Request for Modification of an Assessment Criterion, the following documents have been released and are included in this package:

- The **Staff Report** for the Sixth Review under the Policy Support Instrument and Request for Modification of an Assessment Criterion, prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2013, following discussions that ended on September 17, 2013 with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on December 5. 2013.

- An **Informational Annex** prepared by the IMF staff.

- A **Press Release** including a statement by the Chair of the Executive Board.

- 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 Staff Report

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

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INTERNATIONAL MONETARY FUND

SENEGAL

December 5, 2013

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF AN ASSESSMENT CRITERION

KEY ISSUES

Context. GDP growth is on track to reach 4 percent in 2013 and is projected to increase to 4.6 percent in 2014. Inflation has been declining, following a good harvest, and should stay below 1 percent in 2013 and below 2 percent in 2014. The cabinet was reshuffled in early September. This change was broadly viewed as a move to accelerate reforms ahead of local elections scheduled for the spring of 2014.

Program implementation. While all quantitative program targets for mid-2013 were met, structural reform implementation slowed significantly during the summer and most structural benchmarks were not met by their respective deadlines. A number of critical reforms not covered by benchmarks also experienced limited progress.

Fiscal outlook. The 2013 deficit target of 5.4 percent of GDP is projected to be met. The deficit would further decrease to 4.9 percent of GDP in 2014. This will require strengthening the revenue base, as recurrent revenue shortfalls have complicated fiscal management and required inefficient expenditure cuts in the past few years. The revenue mobilization efforts will hinge on tax administration reforms, as the tax system needs to stabilize after the introduction of the new tax code. Substantial current expenditure streamlining is also expected in 2014. It will contribute to the reduction of the deficit while allowing for higher public investment and the development of the social safety net.

Reforming the State. The reform of agencies will improve transparency of public spending, expenditure control, fiscal management, and the efficiency of public spending. Beyond the restructuring of existing agencies, better supervision of remaining agencies and better application of rules governing the creation of new ones will be critical. Other efforts to increase the efficiency of public expenditure, such as generalizing cost-benefit analysis for the selection of projects and better control over the wage bill, should continue.

Energy sector. Slow reforms in this sector represent a major obstacle to economic growth and carry substantial fiscal risks. Insufficient progress has been recorded in the implementation of the authorities' strategy to introduce more cost-effective production technologies and improve the efficiency of SENELEC. It is critical to adopt a realistic timeline for the implementation of the investment plan and to focus efforts on a few large projects that are most critical. Better communication with all stakeholders on the situation of the sector, the reform strategy and its implementation is also needed.

Staff recommends completion of the sixth PSI review.

Approved By
Roger Nord and Peter Allum

A staff team consisting of Mr. Joly (head), Mr. Basdevant, Mr. Kireyev, (all AFR), Mr. Mulas-Granados (FAD), Ms. Nkhata (SPR), Ms. Fichera (outgoing resident representative), Mr. Loko (new resident representative) and Mr. Ba (local economist) conducted the discussions in Dakar September 4–17, 2013. Discussions continued in Washington during the annual meetings. Messrs. Diallo and Sembene (OED) participated in the discussions. The team met with President Sall, the ministers in charge of economy and finance, budget, energy, infrastructure, and higher education, National Director of the BCEAO Camara, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community.

CONTENTS

RECENT DEVELOPMENTS AND OUTLOOK

1. **Political context**. Popular pressure to deliver on the reform agenda outlined during the 2012 presidential elections remains strong. The cabinet was reshuffled in early September, reportedly with a view to reinvigorating reform implementation, which has been slow in the past year, and preparing the local elections scheduled for the spring of 2014.

2. **Recent economic developments and outlook**. GDP growth is on track to reach 4 percent in 2013, up from 3.5 percent in 2012. Inflation remains subdued, with consumer price inflation below 1 percent owing to good harvests. Growth is expected to increase further in 2014 to 4.6 percent, because of a somewhat more favorable external environment and the completion of large mining and infrastructure projects, while inflation would remain moderate. After a large increase in 2012, the external current account deficit is expected to decline to 9.4 percent of GDP reflecting mainly an improvement in the terms of trade, lower food imports, and higher remittances. Broad money growth has been in line with that of nominal GDP. Credit to the private sector has recorded a significant deceleration in 2013, likely reflecting financial difficulties in the hydrocarbon sector.

3. **Risks**. The main risks to the outlook are domestic. Fiscal consolidation efforts could be affected by the revenue shortfall observed in early 2013 and by insufficient reform momentum affecting the envisaged expenditure streamlining. Reform implementation could face strong opposition from vested interests and be affected by the electoral calendar. It will also require better coordination within the government. The main external risk is a possible further increase in the cost of international borrowing related to the unwinding of unconventional monetary policies and uncertainty on the fiscal outlook of large advanced economies.

PROGRAM PERFORMANCE

4. **Program performance has been mixed.** All quantitative program targets for mid-2013 were met, including the budget deficit target despite revenue shortfalls (below). Structural reform implementation slowed significantly during the summer, and as a result most structural benchmarks were not met by their respective deadlines.[1] A number of critical reforms not covered by benchmarks also experienced limited progress. This was the case in the energy sector, with delays in the implementation of large investment projects to boost power production and reduce costs, and the postponement by a few months of the strategy to reform the national refinery (SAR). This slowdown reflected a number of factors, including coordination issues (Text Table 1).

MEFP ¶4-5

[1] The benchmark on asset declaration, which is associated with the next review, was however met ahead of schedule.

Text Table 1. Structural Benchmarks for Sixth PSI Review: Status of Implementation

Measures	Deadline	Status	Reason for the delay
Roll out on-line filing and on-line payment of taxes by large enterprises	June 30, 2013	Implemented in November 2013 for taxes on imports; implementation expected in December 2013 for other taxes	e-payment required more coordination than expected with banks. The accidental death of a resident expert also contributed to the delay
Produce a plan for restructuring all agencies and comparable entities	July 31, 2013	Implemented in November 2013	The time needed to prepare a fully-owned strategy based on the report made by a consultancy took longer than expected. Coordination issues.
Use cost-benefit assessment for investment exceeding CFAF 10 billion to be included in the budget for 2014	July 31, 2013	Not met	No such new projects were eventually included in the 2014 budget. However, capacity to do cost-benefit analysis has been built up.
Roll out the new payroll management software	August 31, 2013	Not met	The delivery of the software was delayed because of payment issues with the supplier. Coordination issues.
Submit new Customs Code to Parliament	September 30, 2013	Implemented in November 2013	The private sector requested more time for consultation on the draft before finalization. Coordination issues.

POLICY DISCUSSIONS

A. Fiscal Policy

5. **Despite the recent adverse revenue developments, the authorities reiterated their intention to continue reducing the fiscal deficit to strengthen debt sustainability and recover margins for fiscal maneuver.** They were confident that the 2013 deficit target was still within reach. The draft 2014 budget targets a further reduction of the deficit of about 0.5 percent of GDP, and the authorities still intend to lower the deficit to below 4 percent of GDP in 2015. This moderate pace of consolidation will be done in a growth-friendly manner, by targeting inefficiencies in government

expenditures. In this regard, the authorities have requested technical assistance from the Fund to conduct a review of public expenditures.[2]

6. **Meeting the 2013 deficit target of 5.4 percent of GDP will require expenditure restraint.** A revenue shortfall amounting to about 0.5 percent of GDP was incurred in the first half of the year, mostly in the first quarter.[3] It was driven by a number of factors, such as a more-generous-than-expected reduction of the personal income tax, transitory VAT collection shortfalls reflecting the phasing out of VAT withholding by government agencies, and disappointing nontax revenue. In addition, the power sector's tight financial situation continued to weigh on revenue collection. Revenue collection is expected to improve in the second half of 2013, but not enough to prevent a significant shortfall at year end. The authorities intend to meet the deficit target, however, thanks to savings on the wage bill, interest payments, and the deferral of a few budgeted investment projects.

MEFP ¶10

7. **Strengthened revenue collection will contribute to the further reduction of the fiscal deficit in 2014.** Securing the revenue base is an important objective for the authorities; recurrent revenue shortfalls have indeed complicated fiscal management and required inefficient expenditure cuts in the course of the past few years. The immediate priority is to complete the major tax reform launched in 2013, with in particular the introduction of cash refunds for VAT credits and the completion of all implementing regulations. After this major reform, the tax system needs to be stabilized, which warrants a focus on complementary tax administration reforms. They include changes to the remuneration of tax inspectors to ensure adequate incentives to broaden the tax base rather than a focus on a few large taxpayers, and increased staffing, which is required for a resolution of existing tax arrears, a comprehensive audit of VAT credits, and more intensive use of various sources of information. These measures, together with a few specific tax policy measures, should increase the tax revenue ratio by 0.3 percent of GDP in 2014. An indicative revenue target has also been introduced in the program, and the authorities are committed to taking early corrective measures should a shortfall be expected again at the time of the 7th review.

MEFP ¶12, 15, Box 1

8. **Substantial current expenditure streamlining is also expected in 2014.** This streamlining—a decrease in the current expenditure ratio of 0.8 percentage point of GDP—will contribute to the reduction of the deficit while allowing for an increase in the investment ratio and for the development of key components of the

MEFP ¶13-14, Box 2

[2] This review would build on a review of public expenditures in a few sectors conducted by the World Bank a few years ago. Close collaboration with the Bank is expected for this new exercise.

[3] The analysis of revenue and expenditure in 2013 is complicated by two factors. First, nominal GDP was revised downwards. As a result, everything else equal, ratios to GDP are higher than at the time of the 5th review. This is the case, for instance, for the deficit ratio, which has increased from 5.3 to 5.4 percent of GDP. Second, exceptional nontax revenue (about 0.3 percent of GDP) was collected during the summer, mostly from the resolution of a dispute with the concessionaire of the Dakar port's container terminal. This revenue was quickly and almost entirely allocated by the authorities to new investment projects. This affects revenue and expenditure ratios, but not the deficit. The mission stressed that a more prudent approach to exceptional revenue would have been to wait for a comprehensive assessment of the revenue situation before deciding whether they could be allocated to new expenditure.

social safety net, such as the Family Security Allowance (a conditional cash transfer) and progress towards universal health coverage. A focus on eliminating unproductive expenditures and raising investment should ensure more efficient and growth-friendly government spending. The streamlining will affect many expenditure areas, including the government's utility bills, the wage bill (with a focus on wage moderation to offset the impact of new hiring), and a number of transfers (e.g., agriculture). In higher education, politically difficult decisions have been taken to improve the targeting of scholarships and increase tuitions. While the restructuring of public agencies will likely produce savings in the medium term, it may generate costs in the short term related to the termination of certain contracts and the reallocation of a number of employees. Overall, the deficit target is somewhat higher than projected at the time of the previous review (by 0.2 percent of GDP, at 4.9 percent), to accommodate additional public investment and possible costs from agency restructuring.

9. **Eurobond issuance has been postponed to 2014,** because of a sharp tightening of financial conditions on international markets since the last review. This will give the authorities more time to prepare for it and explore the various options available. The financing of the 2013 deficit has been secured through a syndicated loan equivalent to CFAF 250 billion arranged by a regional bank. This amortizing loan has a 7-year maturity and carries a 6.5 percent interest (or an effective rate slightly above 7 percent once other costs are factored in). The loan will be mostly denominated in CFA franc (about 60 percent), with the rest in euro. A significant part of the financing in 2013 has come from the regional market, on which the authorities have been successful in increasing maturities at issuance with a limited impact on costs. Further financing from the regional market will be needed in 2014. Senegal was recently re-classified as a "higher-capacity" country under the IMF's debt limits policy. The design of debt limits in the program will be reconsidered comprehensively at the time of the next review based on an updated debt sustainability analysis, which will also reflect the new discount rate.

B. Reforming the State

10. **The reform of public agencies should bring significant benefits.** The reform aims at rationalizing the recourse to public agencies, which have proliferated in the 2000s with adverse implications for the transparency of public spending, expenditure control, fiscal management, and the efficiency of public spending. A recent study commissioned by the authorities surveyed more than 50 agencies, managing about CFAF 820 billion (about the size of the entire investment budget). While these agencies only have about 3000 employees, the average remuneration of their staff is about twice as high as in the civil service (and even more for senior managers). The reform strategy entails the suppression or merging of a number of agencies, better supervision of the remaining agencies and better application of rules governing the creation of new ones (with a cost-benefits analysis required before any decision is made on creation). Monitoring capacity is being built up at the ministry of finance, which should be able to produce quarterly financial reports on agencies from spring 2014. The authorities are also committed to developing

MEFP ¶19

strategies and performance contracts on their implementation for the 5 largest agencies by mid-2014.[4]

11. **Efforts to increase the efficiency of public expenditure will continue**. The review of public expenditure will help the authorities identify further areas where public resources could be put to better use and design reforms to be implemented beyond 2014. The authorities also intend to expand the use of cost-benefit analysis to about one third of investment expenditures included in the 2015 budget, and they will share the analyses conducted on the five largest investment projects with the national assembly (new structural benchmark). Control over the wage bill is expected to improve with the roll out of the new payroll software, the new database resulting from the recent physical audit of the civil service, and technical assistance provided by the Fund.

MEFP ¶22-23

12. **Public financial management will continue to be strengthened in parallel.** The single treasury account should be operational by end-2013 (after significant delays). It will be a critical tool to improve liquidity management. Substantial efforts will be made to improve the quality of accounting, budgetary, and financial data. Budgeting is expected to improve too, with a better handle on the projection of key items (such as the wage bill) and less optimism in revenue projections. The authorities are also planning to move progressively to more transparent fiscal accounts, with less frequent netting out of certain expenditure items from revenue.

MEFP ¶21

Text Table 2. Structural Benchmarks: Seventh and Eighth PSI Reviews

Measures	Implementation Date	Benchmark for Review	Macroeconomic Significance
Start using the new payroll management software	January 1, 2014 Reprogrammed from August 31, 2013	7th	Strengthen public financial management
Roll out e-filing and e-payment of taxes for all taxpayers in the Dakar area	January 1, 2014	7th	Improve efficiency of public policy and the business climate
Transmission to parliament of a draft law on assets disclosure	January 1, 2014. Done in November 2013	7th	Increase transparence of public finances
Perform cost-benefits analysis before the creation of new agencies (new)	Continuous		Improve the quality of public expenditure

[4] These include, among others, the agency the agency in charge of road work and maintenance, the agency in charge of rural electrification, and the national statistical agency.

Text Table 2. Structural Benchmarks: Seventh and Eighth PSI Reviews (Concluded)

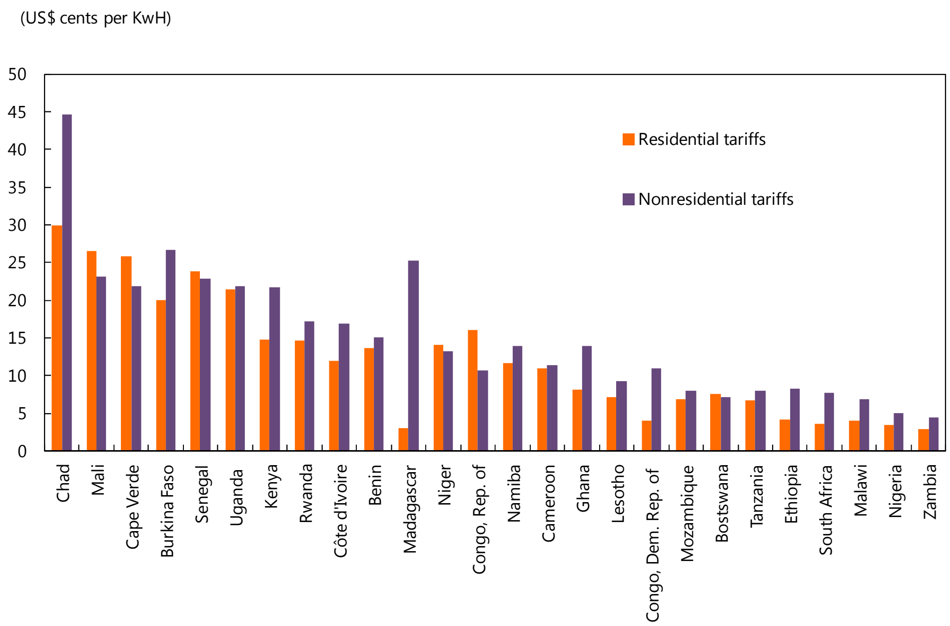
Measures	Implementation Date	Benchmark for Review	Macroeconomic Significance
The reports of the SENELEC performance contract monitoring committee and the audit on implementation of this performance contract will be covered by a publication. The first publication will include a survey of the electricity sector, including its financial situation, as well as the strategy of the authorities for reform of the sector (new)	March 31, 2014 (for the first report)	7th	Promote private sector development
Approve strategies for the 5 largest agencies and related performance contracts (new)	June 30, 2014	8th	Improve the quality of public expenditure
Share the cost-benefits analyses of 5 largest investment projects in the 2015 budget with the National Assembly (new)	October 15, 2014	8th	Improve the quality of public expenditure

C. Promoting Growth and Private Sector Development

MEFP ¶24-26

13. **Reforming the energy sector remains a macroeconomic priority**. Beyond the criticality of ample, reliable, and affordable energy for growth and welfare, energy sector subsidies adversely affect fiscal sustainability and the ability of the authorities to invest in critical areas. Implicit and explicit electricity subsidies exceeded 2.5 percent of GDP in 2012 (about CFAF 180 billion), reflecting prices that are about 40 percent below production costs. Despite large subsidization, prices remain among the highest in sub-Saharan Africa (at about US$0.25 per kWh, see Figure 1 below, or twice the level in the U.S.). Total fiscal support to the sector would decrease somewhat in 2013 and 2014, reflecting mostly a better production mix and to a lesser extent efficiency gains at SENELEC, the power utility, and the fight against fraud. However, this support will remain very large, substantially exceeding the amount budgeted for the explicit subsidy (CFAF 80 and 60 billion for 2013 and 2014, respectively). The authorities' strategy to address these issues consists in improving the efficiency of SENELEC and introducing more cost-effective production technologies (e.g., coal-based plants built and operated by private operators). Most of these projects will take a few years to come on stream and therefore to reduce durably electricity subsidies in the absence of tariff adjustment.

Text Figure 1. Electricity Tariffs in Sub-Saharan Africa, 2011



Source: Briceño-Garmendia, C., and M., Shkaratan, 2011, "Power Tariffs: Caught between Cost Recovery and Affordability," Policy Research Working Paper #5904, The World Bank. Available via the internet: http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5904

14. **Limited progress has been recorded in power sector reforms in the past year.** A performance contract for SENELEC was signed in June, which should improve its financial and operational management. An independent audit of its implementation is expected to be conducted in early 2014. SENELEC's 2012 accounts were also certified in November 2013, a critical step to refine estimates of the extent of losses and to design a restructuring plan. Limited progress has been made, however, on implementing the investment plan.

15. **The authorities intend to accelerate reform implementation and to improve communication on their strategy**. Staff urged them to adopt a realistic timeline for the implementation of their investment plan, and to focus their efforts on a few large projects that are critical and more likely to go through. The authorities agreed that implementation needed to accelerate, but were of the view that an ambitious plan to increase capacity was warranted, given the very low efficiency of existing units. The authorities also agreed with the need to communicate better with all stakeholders on the situation of the sector, the reform strategy and its implementation through the publication of periodic reports. Staff stressed the need to communicate on the true fiscal cost of supporting the electricity sector; focusing on the explicit subsidy (the transfer for tariff compensation included in the budget) gives a distorted view and provides a false sense of comfort.

16. **The authorities are pursuing reforms aimed at improving the availability of financing and the business environment**. As shown in last year's review of the financial

MEFP ¶27-29

sector, small and medium-sized firms and households still have limited access to financial services, making it difficult for them to deal with volatility and finance investment.[5] To address some of these issues, the authorities updated their action plan on improved access to credit for households and small businesses and plan to complete its implementation by end-2014. The authorities are also implementing their three-year program to improve the business environment, which according to some measures has deteriorated in the past few years. Efforts are concentrated on facilitating the creation of new businesses, the computerization or suppression of a number of procedures to accelerate the delivery of building permits and facilitate real estate transactions, and legal protection of investment. A new legal framework for public-private partnerships is expected to be ready soon.

D. Program Monitoring

17. **A number of changes are proposed to program monitoring.** The ceiling for external borrowing with a grant element between 15 and 35 percent would be raised from CFAF 67 billion to CFAF 132 billion to facilitate the financing of high-return investment projects; this would require a modification of the assessment criterion for end-2013. The discount rate used for future concessionality calculations would be set at 5 percent, as per the Executive Board's recent decision. An indicative target on the level of tax revenue would be introduced. Quantitative assessment criteria and structural benchmarks for the 7th and 8th PSI reviews are proposed in the authorities' MEFP.

STAFF APPRAISAL

18. **Program performance has been mixed**. While all quantitative program targets for mid-2013 were met, structural reform implementation slowed significantly during the summer, and as a result most structural benchmarks were not met by their respective deadlines. A number of critical reforms not covered by benchmarks also experienced limited progress.

19. **Staff welcomes the authorities' intention to stay the course on the reduction of the fiscal deficit and to improve the composition and quality of public expenditures.** Sticking to the 2013 target of 5.4 percent of GDP, despite significant revenue shortfalls, and further reducing the deficit by 0.5 percent of GDP in 2014 sends a strong signal about the authorities' commitment to debt sustainability and to restoring margins for fiscal maneuver. Reducing the deficit will require strengthening the revenue base. The revenue mobilization efforts will hinge on tax administration reforms, as the tax system needs to be stabilized after the major tax reform launched in 2013. Substantial current expenditure streamlining is also expected in 2014. It will contribute to the reduction of the deficit while allowing for an increase in public investment and the development of the social safety net. A focus on eliminating unproductive expenditures and raising investment should ensure more efficient and growth-friendly government spending. Staff welcomes the

[5] See Country Report No. 12/337, in particular Supplement I.

measures already announced by the government (e.g., on higher education) as well as their intention to conduct a public expenditure review with Fund support.

20. **Staff encourages a forceful and steady implementation of public financial management reforms**. The reform of agencies will improve transparency of public spending, expenditure control, fiscal management, and the efficiency of public spending. Beyond the restructuring of existing agencies, better supervision of remaining agencies and better application of rules governing the creation of new ones will be critical. Staff stresses the need for forceful implementation of this reform strategy. It welcomes the buildup of monitoring capacity at the ministry of finance, as well as the commitment to develop strategies and performance contracts on their implementation for the largest agencies. Other efforts to increase the efficiency of public expenditure should continue. Greater use of cost-benefit analysis for the selection of investment expenditures, and better control over the wage bill, are highly desirable.

21. **Slow reforms in the energy sector represent a major obstacle to economic growth and carry substantial fiscal risks**. Staff supports the authorities' strategy to introduce more cost-effective production technologies and improve the efficiency of SENELEC. However, insufficient progress has been recorded in these areas in the past year. Staff urges the authorities to adopt a realistic timeline for the implementation of their investment plan, and to focus their efforts on a few large projects that are most critical. Staff welcomes the authorities' intention to communicate better with all stakeholders on the situation of the sector, the reform strategy and its implementation. Staff stresses the need to communicate on the true fiscal cost of supporting the electricity sector, and not only on the explicit subsidy in the budget which is only part of the total cost.

22. **Staff recommends completion of the sixth PSI review and modification of the end-2013 assessment criterion on semi-concessional debt**. Notwithstanding slower than expected progress in reforms since the last review, staff considers that the program's main objectives remain within reach with the delivery of the authorities' policy commitments.

Table 1. Senegal: Selected Economic and Financial Indicators, 2011–18

	2011	2012	2013 EBS/ 13/72	2013 Proj.	2014	2015	2016	2017	2018
					Projections				
	(Annual percentage change)								
National income and prices									
GDP at constant prices	2.1	3.5	4.0	4.0	4.6	4.8	5.1	5.1	5.1
Of which: nonagriculture GDP	4.8	2.6	3.7	3.7	4.3	4.7	5.0	5.0	5.1
GDP deflator	4.2	1.7	2.2	0.3	2.2	2.3	2.2	2.3	2.3
Consumer prices									
Annual average	3.4	1.4	1.5	0.8	1.4	1.7	1.7	1.9	1.9
End of period	2.7	1.1	1.7	1.2	1.7	1.7	1.8	1.9	1.9
External sector									
Exports, f.o.b. (CFA francs)	15.4	8.0	5.6	8.4	3.3	7.5	8.5	10.2	11.0
Imports, f.o.b. (CFA francs)	19.7	17.5	0.4	3.2	3.8	4.1	8.0	8.5	9.0
Export volume	10.2	3.7	4.1	7.4	5.0	8.0	6.4	7.5	7.7
Import volume	8.9	13.3	4.2	6.5	6.3	6.2	6.3	6.8	6.3
Terms of trade ("–" = deterioration)	-4.0	0.4	5.5	4.1	0.7	1.6	0.4	0.9	0.6
Nominal effective exchange rate	1.4	-2.3	…	…	…	…	…	…	…
Real effective exchange rate	1.1	-3.8	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)								
Broad money	6.7	6.8	6.8	4.9	…	…	…	…	…
Net domestic assets	9.0	8.6	6.4	3.7	…	…	…	…	…
Domestic credit	10.2	4.9	6.3	4.2	…	…	…	…	…
Credit to the government (net)	-2.0	-2.1	-0.8	-0.3	…	…	…	…	…
Credit to the economy (percentage growth)	18.8	9.6	9.6	6.1	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)[1]								
Government financial operations									
Revenue	20.2	20.4	20.7	20.9	20.8	21.0	21.2	21.3	21.3
Grants	2.2	2.9	2.7	2.8	2.8	2.6	2.6	2.5	2.4
Total expenditure and net lending	29.1	29.1	28.7	29.1	28.6	27.6	27.5	27.3	26.9
Overall fiscal balance									
Payment order basis, excluding grants	-8.9	-8.7	-8.0	-8.2	-7.7	-6.6	-6.3	-6.0	-5.6
Payment order basis, including grants	-6.7	-5.9	-5.3	-5.4	-4.9	-3.9	-3.7	-3.5	-3.2
Primary fiscal balance	-5.2	-4.4	-3.8	-3.8	-3.3	-2.0	-1.7	-1.5	-1.2
Savings and investment									
Current account balance (official transfers included)	-7.9	-10.3	-9.3	-9.4	-8.9	-7.9	-7.6	-7.2	-6.9
Current account balance (official transfers excluded)	-8.8	-11.3	-10.0	-10.1	-9.6	-8.5	-8.1	-7.7	-7.4
Gross domestic investment	27.3	27.8	30.3	26.8	26.1	25.0	25.4	25.8	26.0
Government	6.4	6.8	…	6.9	7.1	6.9	6.9	7.0	6.8
Nongovernment	20.8	21.0	…	19.9	19.0	18.1	18.5	18.9	19.2
Gross national savings	19.4	17.4	21.0	17.4	17.2	17.0	17.8	18.6	19.0
Government	6.9	6.6	…	7.6	8.4	9.5	9.8	10.2	10.1
Nongovernment	12.5	10.9	…	9.8	8.8	7.6	8.0	8.5	9.0
Gross domestic savings	9.0	5.5	10.8	6.1	5.9	5.8	6.5	7.2	7.7
Government	4.7	3.7	…	4.9	5.7	6.8	7.2	7.7	7.7
Nongovernment	4.4	1.9	…	1.2	0.3	-1.1	-0.8	-0.4	0.0
Total public debt	40.5	43.4	45.4	45.9	47.4	48.1	48.4	48.5	48.3
Domestic public debt [2]	11.3	12.4	11.6	12.0	12.0	12.9	13.9	14.7	15.3
External public debt	29.2	31.0	33.9	33.9	35.4	35.2	34.6	33.8	33.0
External public debt service									
Percent of exports	13.2	7.3	6.9	7.8	6.8	10.2	10.2	9.9	9.4
Percent of government revenue	17.2	9.6	8.7	10.4	8.8	13.0	12.8	12.6	12.2
Memorandum item:									
Gross domestic product (CFAF billions)[1]	6,814	7,171	7,631	7,485	8,002	8,582	9,223	9,917	10,665

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

[1]Some ratios changed because of revisions to GDP.

[2]Domestic debt includes government securities issued in local currency and held by WAEMU residents.

Table 2. Senegal: Balance of Payments, 2011–18

	2011	2012	2013 EBS/13/72	2013 Proj.	2014	2015	2016	2017	2018
					Projections				
	(Billions of CFAF, unless otherwise indicated)								
Current account	-537	-742	-710	-703	-712	-679	-702	-716	-738
Balance on goods	-1,184	-1,509	-1,387	-1,487	-1,550	-1,562	-1,678	-1,791	-1,911
Exports, f.o.b.	1,237	1,336	1,382	1,449	1,496	1,608	1,745	1,924	2,136
Imports, f.o.b.	-2,421	-2,845	-2,769	-2,936	-3,047	-3,170	-3,423	-3,714	-4,047
Services and incomes (net)	-187	-181	-230	-153	-162	-189	-177	-165	-156
Credits	677	723	735	776	821	869	907	947	1,019
Debits	-863	-903	-965	-930	-983	-1,059	-1,084	-1,112	-1,176
Of which: interest on public debt	-68	-59	-67	-66	-77	-96	-107	-117	-122
Unrequited current transfers (net)	833	948	907	938	1,000	1,073	1,153	1,240	1,330
Private (net)	772	884	867	897	955	1,037	1,119	1,208	1,299
Public (net)	61	63	40	41	45	36	33	31	31
Of which: budgetary grants	37	52	38	38	42	33	32	31	30
Capital and financial account	467	691	704	738	751	728	756	773	800
Capital account	117	196	185	185	185	199	209	221	232
Private capital transfers	7	2	5	5	5	5	5	6	6
Project grants	113	154	169	169	181	194	204	215	227
Debt cancellation and other transfers	-2	40	11	11	0	0	0	0	0
Financial account	349	495	519	554	565	529	547	553	568
Direct investment	137	148	163	163	174	187	201	216	233
Portfolio investment (net)	436	207	301	40	205	100	107	120	151
Of which: Eurobond issuance	224	0	247	0	150	0	0	0	0
Other investment	-224	140	55	350	186	242	239	217	185
Public sector (net)	8	234	145	428	196	212	197	192	187
Of which: disbursements	175	323	232	498	287	320	319	330	340
program loans	40	118	51	53	53	59	58	56	55
project loans	135	205	157	168	184	211	214	222	230
other	0	0	24	277	50	50	47	51	55
amortization	-175	-89	-87	-70	-91	-109	-124	-140	-157
Private sector (net)	-228	-85	-90	-78	-11	30	42	25	-2
Errors and omissions	-4	-9	0	0	0	0	0	0	0
Overall balance	-70	-51	-5	36	39	49	54	58	63
Financing	70	51	5	-36	-39	-49	-54	-58	-63
Net foreign assets (BCEAO)	8	-49	-13	-36	-39	-49	-54	-58	-63
Net use of IMF resources	-2	-3	-3	-3	-9	-18	-19	-18	-18
Purchases/disbursements	0	0	0	0	0	0	0	0	0
Repurchases/repayments	-2	-3	-3	-3	-9	-18	-19	-18	-18
Other	23	-47	8	-33	-30	-32	-35	-40	-45
Deposit money banks	49	101	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-7.9	-10.3	-9.3	-9.4	-8.9	-7.9	-7.6	-7.2	-6.9
Excluding current official transfers (percent of GDP)	-8.8	-11.3	-10.0	-10.1	-9.6	-8.5	-8.1	-7.7	-7.4
Gross official reserves (imputed reserves, billions of US$)	2.0	2.1	2.1	2.2	2.3	2.5	2.6	2.7	2.9
(percent of broad money)	36.7	36.1	34.2	35.6	34.3	33.4	32.5	31.7	30.9
WAEMU gross official reserves (billions of US$)	14.7	13.9	...	...	...	... ...	...	...	
(percent of broad money)	55.0	51.2	...	...	...	... ...	...	...	
(months of WAEMU imports of GNFS)	5.9	5.2	...	...	...	... ...	...	...	
Gross domestic product	6,814	7,171	7,631	7,485	8,002	8,582	9,223	9,917	10,665

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

Table 3. Senegal: Government and FSE Financial Operations, 2011–18

	2011	2012	2013		2014	2015	2016	2017	2018
			EBS/ 13/72	Rev. Prog.[1]			Projections		
	(Billions of CFAF, unless otherwise indicated)								
Total revenue and grants	1,526	1,670	1,784	1,770	1,891	2,030	2,192	2,360	2,530
Revenue	1,376	1,464	1,577	1,563	1,668	1,803	1,956	2,113	2,273
Tax revenue	1,287	1,379	1,459	1,434	1,561	1,692	1,836	1,984	2,134
Income tax	346	405	413	403	450	491	537	587	632
Taxes on goods and services	729	783	817	815	881	953	1,033	1,111	1,195
Taxes on petroleum products	212	172	229	216	231	248	266	286	308
Nontax revenue	50	44	83	95	72	77	83	89	96
FSE	39	41	35	35	35	34	37	40	43
Grants	150	206	207	207	223	227	236	246	257
Budget	37	52	38	38	42	33	32	31	30
Projects	113	154	169	169	181	194	204	215	227
Total expenditure and net lending [2]	1,980	2,090	2,190	2,176	2,287	2,366	2,537	2,707	2,870
Current expenditure	1,233	1,257	1,321	1,317	1,345	1,381	1,473	1,556	1,666
Wages and salaries	428	462	477	470	492	519	557	599	645
Interest due	104	108	122	118	130	165	184	203	211
Of which: external	62	52	67	60	72	90	101	112	116
Other current expenditure	702	687	722	729	724	698	732	754	811
Transfers and subsidies	335	355	335	348	336	294	307	298	320
Of which: SAR and butane subsidy	15	13	16	16	16	0	0	0	0
Of which: SENELEC/energy	124	105	80	80	60	50	40	0	0
Of which: Food subsidies	0	4	4	4	0	0	0	0	0
Goods and services	367	333	387	382	388	403	424	456	491
Capital expenditure	718	814	869	859	942	985	1,064	1,151	1,204
Domestically and nonconcessionally financed	475	492	532	522	577	581	646	714	747
Externally (concessionally) financed	244	322	337	337	365	405	418	437	457
Net lending	28	19	0	0	0	0	0	0	0
Of which: On-lending	36	37	13	13	13	14	15	17	18
Selected public sector entities balance	0	0	0	0	0	0	0	0	0
Primary fiscal balance	-356	-313	-288	-288	-266	-172	-161	-145	-129
Overall fiscal balance (excluding grants)	-605	-626	-613	-613	-619	-563	-580	-594	-597
Overall fiscal balance (including grants)	-455	-420	-406	-406	-396	-336	-344	-347	-340
Financing	455	420	406	406	396	336	344	347	340
External financing	422	436	432	436	368	278	268	277	300
Drawings	360	501	230	230	258	338	344	366	402
Program loans	40	118	51	53	53	59	58	56	55
Project loans	135	205	157	168	184	211	214	222	230
T-bills and T-bonds, WAEMU (net)	184	178	22	8	21	67	72	88	116
Nonconcessional loans	224	0	271	277	200	50	47	51	55
Eurobond issuance	224	0	247	0	150	0	0	0	0
Deposit	0	0	0	0	0	0	0	0	0
Other non-concessional borrowing [3]	0	0	24	277	50	50	47	51	55
Amortization due	-162	-65	-69	-70	-91	-109	-124	-140	-157
Domestic financing	12	-13	-3	-8	28	58	77	70	40
Banking system	12	-195	-14	-12	26	56	75	68	40
Of which: T-bills and T-bonds, domestic (net)	64	25	6	9	50	90	110	103	74
Nonbank financing	0	183	10	4	2	2	2	2	0
Settlement of payment delays	21	-3	-23	-23	0	0	0	0	0
Errors and omissions	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Budgetary float (program definition)	50	50	50	50	50	50	50	50	50
New issues of government securities	417	492	395	390	...	...	...	...	...
Priority expenditure (percent of total expenditure) [4]	35	44	35	44	...	...	...	...	...
Gross domestic product	6,814	7,171	7,631	7,485	8,002	8,582	9,223	9,917	10,665

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

[1] Includes additional non-tax revenue of CFAF 27.1 billion from the settlement of disputes with Dubai Port World and Suneor; 90 percent of this revenue was allocated to new investment projects.

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

[3] Assumes that part of the deficit in 2013 will be financed with a syndicated loan in foreign currency of 245 billion FCFA

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

Table 4. Senegal: Government and FSE Financial Operations, 2011–18

	2011	2012	2013 EBS/13/72	2013 Adj. proj.	2014	2015	2016	2017	2018
					Projections				
	(Percent of GDP, unless otherwise indicated)								
Total revenue and grants	22.4	23.3	23.4	23.7	23.6	23.7	23.8	23.8	23.7
Revenue	20.2	20.4	20.7	20.9	20.8	21.0	21.2	21.3	21.3
Tax revenue	18.9	19.2	19.1	19.2	19.5	19.7	19.9	20.0	20.0
Income tax	5.1	5.6	5.4	5.4	5.6	5.7	5.8	5.9	5.9
Taxes on goods and services	10.7	10.9	10.7	10.9	11.0	11.1	11.2	11.2	11.2
Taxes on petroleum products	3.1	2.4	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Nontax revenue	0.7	0.6	1.1	1.3	0.9	0.9	0.9	0.9	0.9
FSE	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Grants	2.2	2.9	2.7	2.8	2.8	2.6	2.6	2.5	2.4
Total expenditure and net lending	29.1	29.1	28.7	29.1	28.6	27.6	27.5	27.3	26.9
Current expenditure	18.1	17.5	17.3	17.6	16.8	16.1	16.0	15.7	15.6
Wages and salaries	6.3	6.4	6.3	6.3	6.1	6.0	6.0	6.0	6.0
Interest payments	1.5	1.5	1.6	1.6	1.6	1.9	2.0	2.0	2.0
Other current expenditure	10.3	9.6	9.5	9.7	9.0	8.1	7.9	7.6	7.6
Transfers and subsidies	4.9	4.9	4.4	4.6	4.2	3.4	3.3	3.0	3.0
Of which: SAR and butane subsidy	0.2	0.2	...	0.2	0.2	0.0	0.0	0.0	0.0
Of which: SENELEC/energy	1.8	1.5	...	1.1	0.7	0.6	0.4	0.0	0.0
Of which: Food subsidies	0.0	0.1	...	0.1	0.0	0.0	0.0	0.0	0.0
Goods and services	5.4	4.6	4.9	5.1	4.8	4.7	4.6	4.6	4.6
Capital expenditure	10.5	11.4	11.4	11.5	11.8	11.5	11.5	11.6	11.3
Domestically and nonconcessionally financed	7.0	6.9	7.0	7.0	7.2	6.8	7.0	7.2	7.0
Externally (concessionally) financed	3.6	4.5	4.4	4.5	4.6	4.7	4.5	4.4	4.3
Net lending	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected public sector entities balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-5.2	-4.4	-3.8	-3.8	-3.3	-2.0	-1.7	-1.5	-1.2
Overall fiscal balance									
Payment order basis, excluding grants	-8.9	-8.7	-8.0	-8.2	-7.7	-6.6	-6.3	-6.0	-5.6
Payment order basis, including grants	-6.7	-5.9	-5.3	-5.4	-4.9	-3.9	-3.7	-3.5	-3.2
Financing	6.7	5.9	5.3	5.4	4.9	3.9	3.7	3.5	3.2
External financing	6.2	6.1	5.7	5.8	4.6	3.2	2.9	2.8	2.8
Domestic financing	0.2	-0.2	0.0	-0.1	0.3	0.7	0.8	0.7	0.4
Settlement of payment delays	0.3	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Priority expenditure	9.0	12.7	10.2	12.7	...	...	...	...	...
Wages and salaries (percent of revenue)	31.1	31.5	30.2	30.1	29.5	28.8	28.5	28.4	28.4
Total cost of energy subsidies									

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

Table 5. Senegal: Monetary Survey, 2010–13

	2010	2011	2012	2013
				Proj.
	(Billions of CFAF)			
Net foreign assets	988	931	879	915
BCEAO	735	726	776	811
Commercial banks	253	204	104	104
sdasd				
Net domestic assets	1,552	1,781	2,016	2,122
Net domestic credit	1,847	2,106	2,240	2,362
Net credit to the government	200	150	97	86
Central bank	202	103	-38	-53
Commercial banks	0	46	130	139
Other institutions	-2	2	5	4
Credit to the economy	1,647	1,956	2,144	2,276
Other items (net)	-295	-326	-224	-241
Broad money	2,540	2,711	2,896	3,037
Currency outside banks	561	588	585	573
Total deposits	1,979	2,123	2,310	2,464
Demand deposits	988	1,061	1,192	1,261
Time deposits	991	1,063	1,118	1,202
	(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	5.8	-2.3	-1.9	1.2
BCEAO	0.4	-0.3	1.8	1.2
Commercial banks	5.4	-1.9	-3.7	0.0
Net domestic assets	8.3	9.0	8.7	3.7
Net credit to the government	4.0	-2.0	-2.0	-0.3
Credit to the economy	7.0	12.2	6.9	4.5
Other items (net)	-2.6	-1.2	3.7	-0.6
Broad money	14.1	6.7	6.8	4.9
Memorandum items:	(Units indicated)			
Velocity (GDP/broad money; end of period)	2.5	2.5	2.5	2.5
Nominal GDP growth (percentage growth)	5.9	6.4	5.3	4.4
Credit to the economy (percentage growth)	10.4	18.8	9.6	6.1
Credit to the economy/GDP (percent)	25.7	28.7	29.8	30.4
Variation of net credit to the government (yoy; CFAF billions)	88.5	-49.7	-53.7	86.2
Central bank refinance rate (eop; percent)	4.3	4.3	4.0	…

Sources: BCEAO; and IMF staff estimates and projections.

Table 6. Financial Soundness Indicators for the Banking Sector, 2008–12

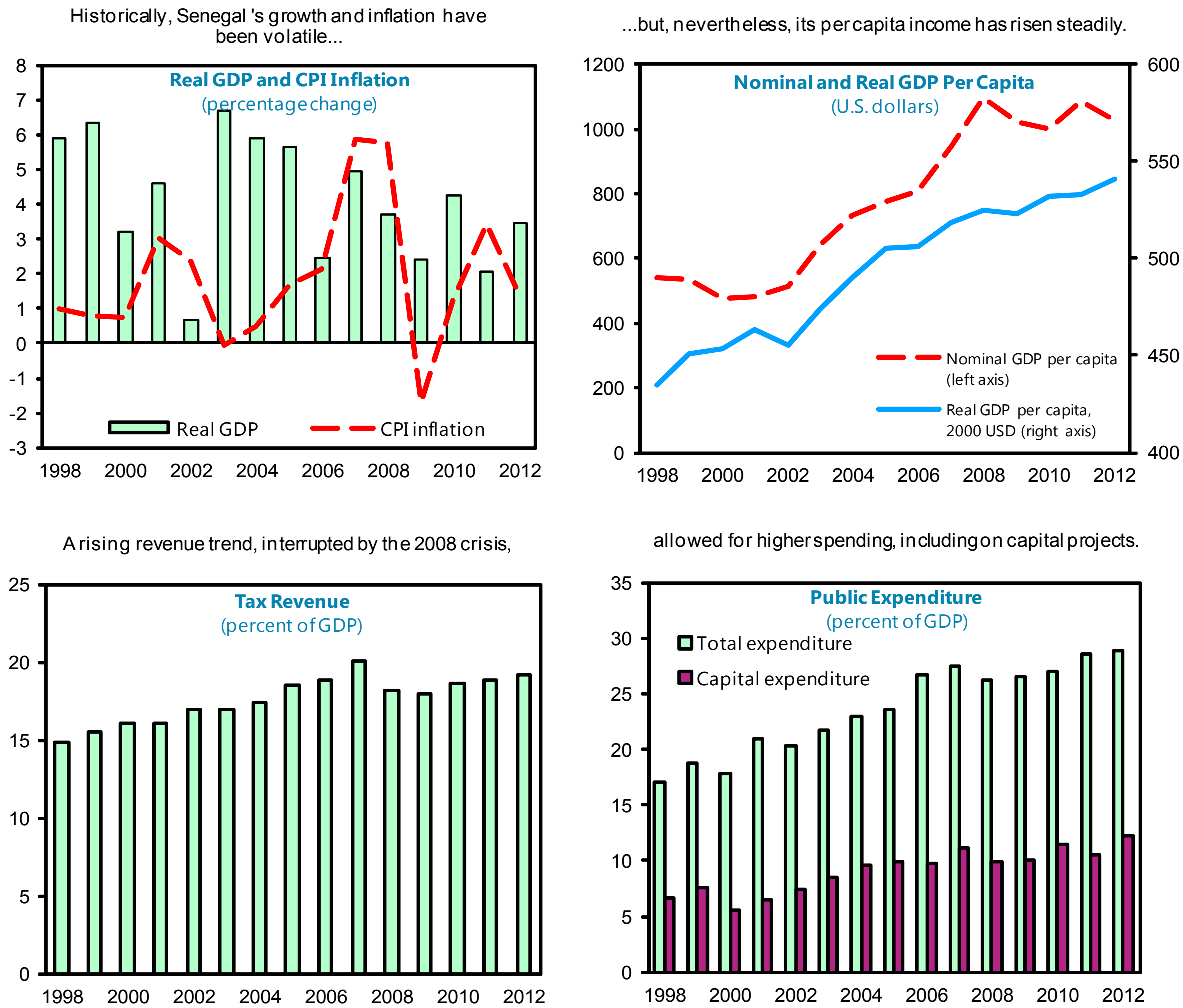
	2008	2009	2010	2011	2012
	(Percent, unless otherwise indicated)				
Capital Adequacy					
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3
Capital to total assets	9.1	9.3	10.0	9.8	9.6
Asset Composition and Quality					
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7
Sectoral distribution of loans					
Industrial	19.5	27.5	26.4	22.2	23.8
Retail and wholesale trade	18.5	24.5	23.8	19.2	21.6
Services, transportation and communication	31.1	34.1	41.9	34.0	30.6
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4
Of which: without ICS	14.2	15.8	15.8	13.2	15.1
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1
Of which: without ICS	65.7	64.7	65.3	68.3	63.0
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2
Of which: without ICS	5.4	6.2	6.1	4.6	6.3
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4
Of which: without ICS	35.3	38.4	41.5	35.7	38.8
Earnings and profitability					
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4
Liquidity					
Liquid assets to total assets	…	31.7	39.8	36.1	37.0
Liquid assets to total deposits	…	49.8	52.4	76.7	52.3
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7

Source: BECAO.

[1]Break in the series in 2010 due to a methodological change.

[2]Excluding the tax on banking operations.

Figure 1. Senegal: Historical Perspective, 1998–2012



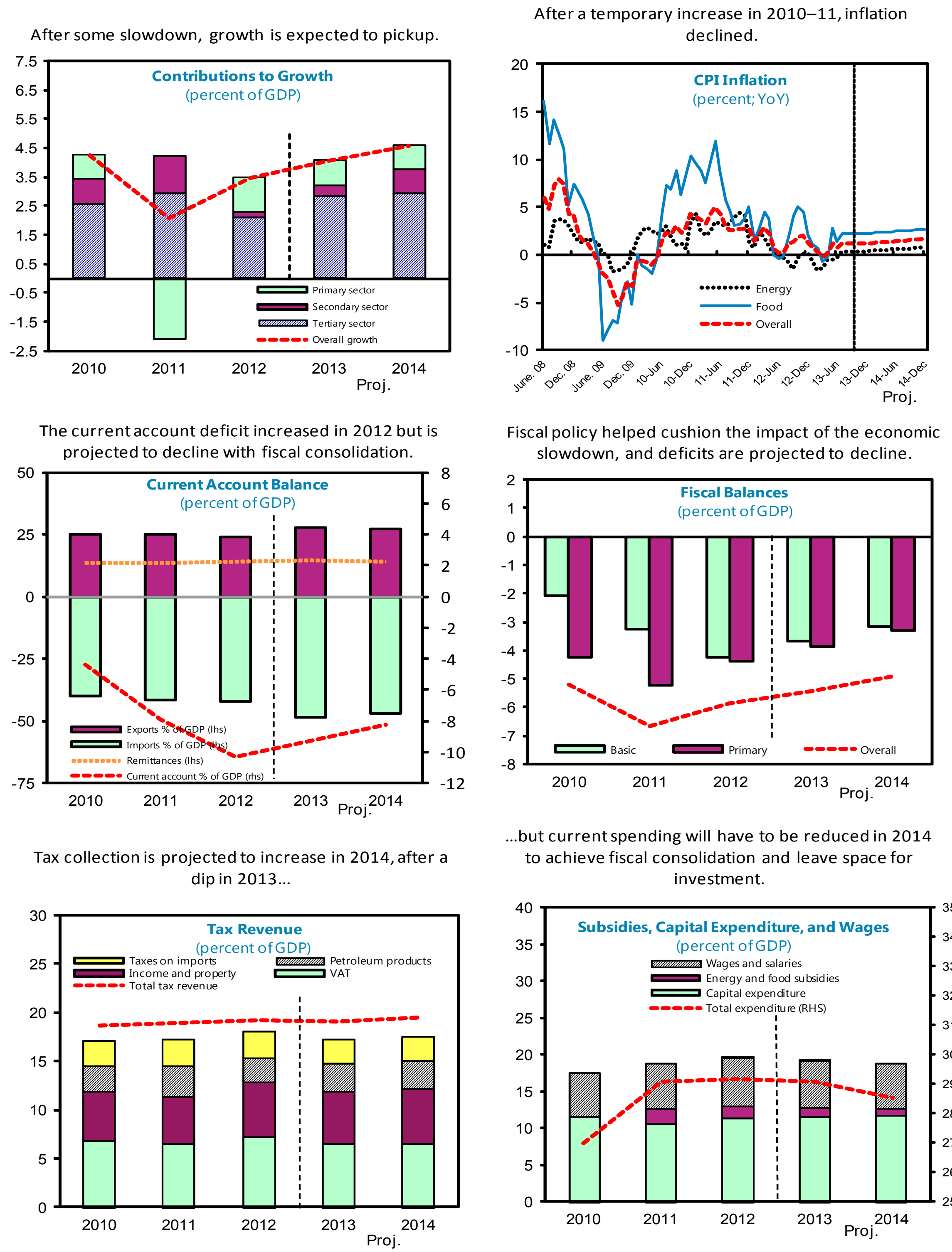
Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2011
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	66	54	44	34	30
Literacy rate, youth female (% of females ages 15-24)	28	..	41	45	56
Adjusted net enrollment rate, primary (% of primary school age children)	46	52	60	76	79
Ratio of female to male primary enrollment (%)	73	76	87	97	107
Mortality rate, infant (per 1,000 live births)	69	71	67	57	47
Mortality rate, under-5 (per 1,000 live births)	136	142	130	97	65
Births attended by skilled health staff (% of total)	..	47	58	52	65
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.4	0.6	0.7
Improved water source (% of population with access)	61	63	66	68	72

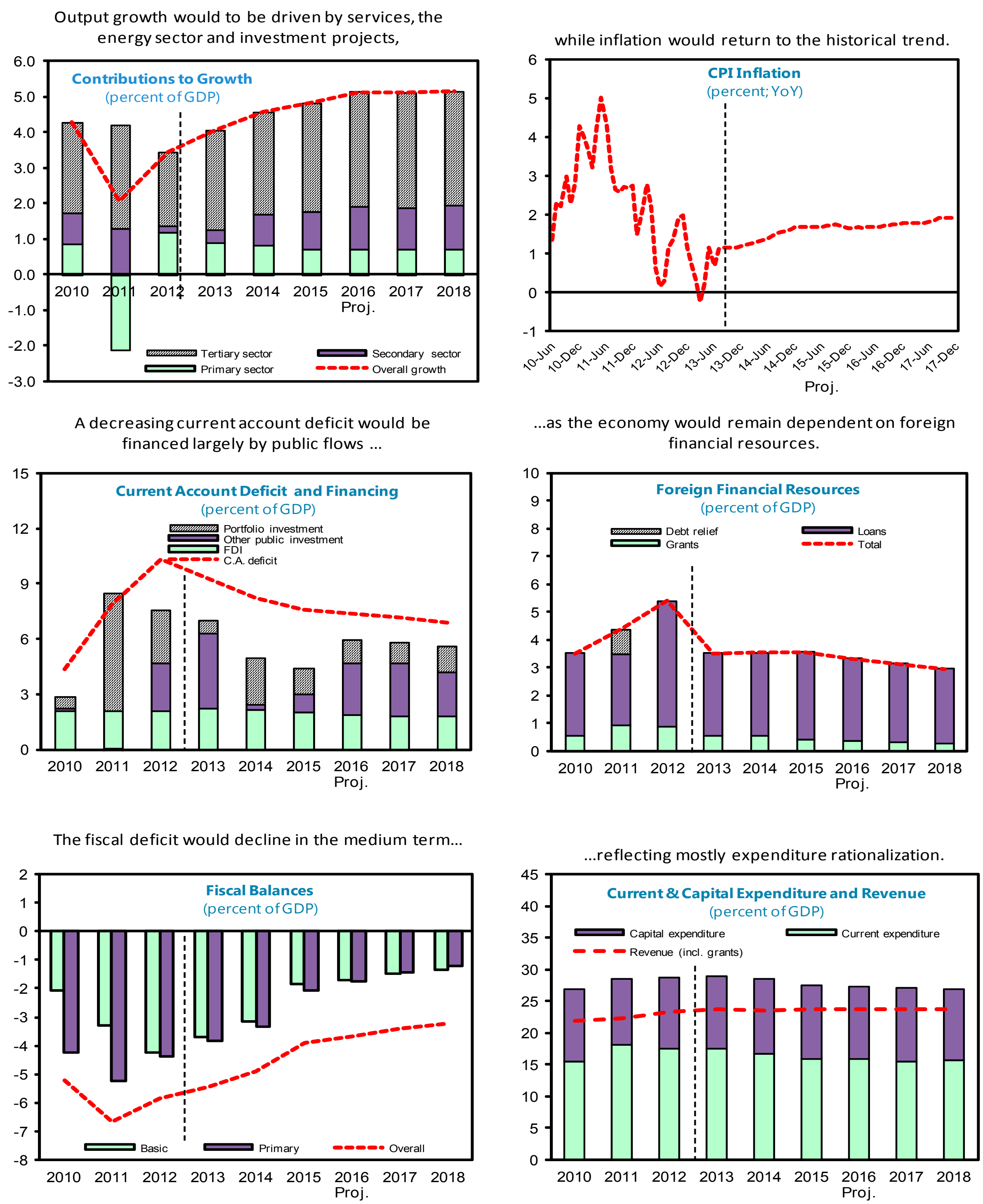
Source: Millennium Development Goals Database, World Bank, 2013.

Figure 2. Senegal: Recent Developments and Short-Term Projections, 2010—14



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

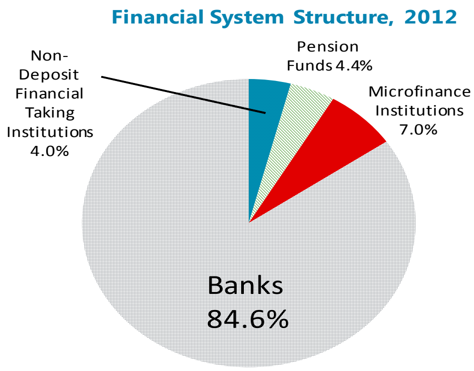
Figure 3. Senegal: Medium-Term Outlook, 2010–2018



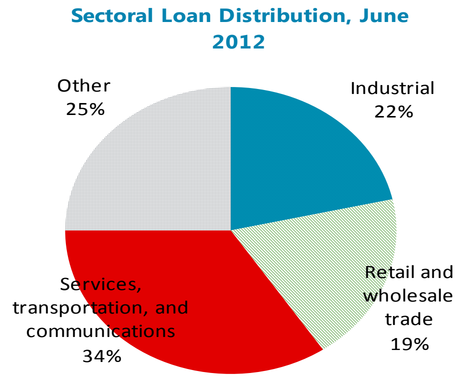
Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

Figure 4. Senegal: Financial Sector Developments

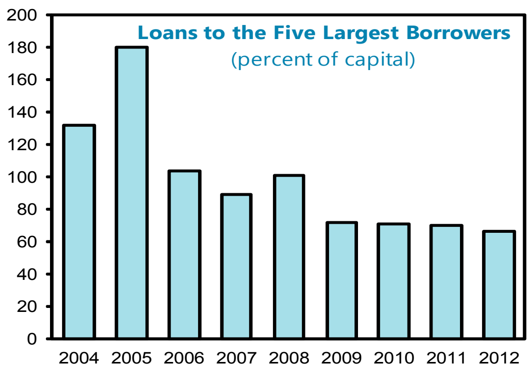
Senegal's financial system is largely bank-based...



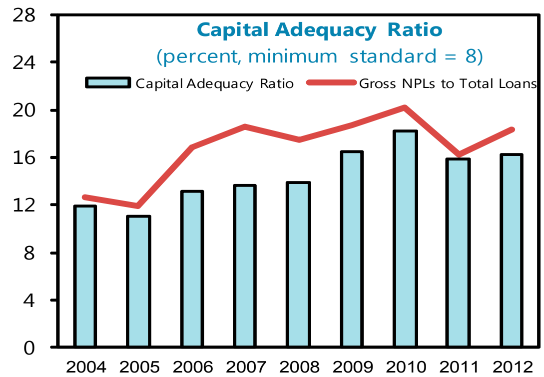
and lending benefits mainly the services sector.



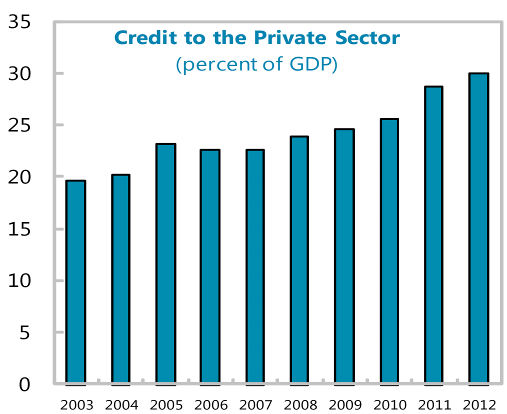
Loan concentration declined but still remains high.



The banking sector is on average well capitalized, but NPLS are high.



Financial deepening has taken place in recent years...



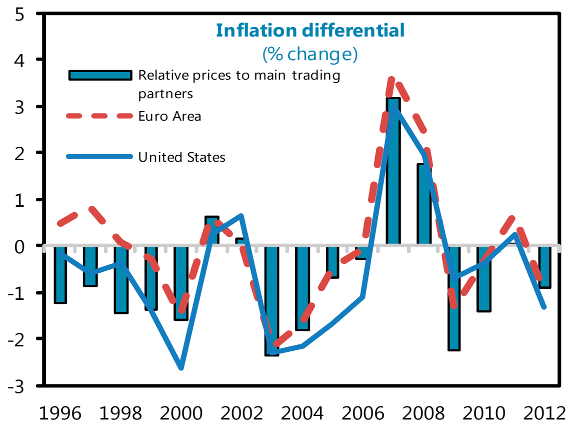
but access to credit remains low.

Access to Credit	Senegal	Mauritius	Morocco
Rank (out of 183)	129	53	104
Strength of legal rights index (0–10)	6	6	3
Depth of credit information index (0–6)	1	5	5
Public registry coverage (pecent of adults)	4.6	56.3	0
Private bureau coverage (percent of adults)	0	0	17.2

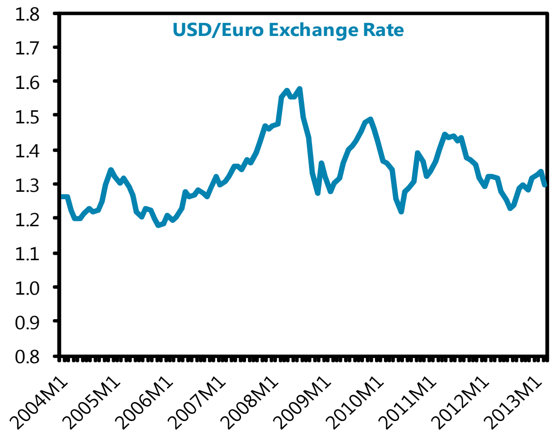
Sources: BCEAO; Senegalese authorities; IMF staff estimates; and Doing Business 2013: Smarter Regulations for Small and Medium–Size Enterprises.

Figure 5. Senegal: Exchange Rate and Competitiveness

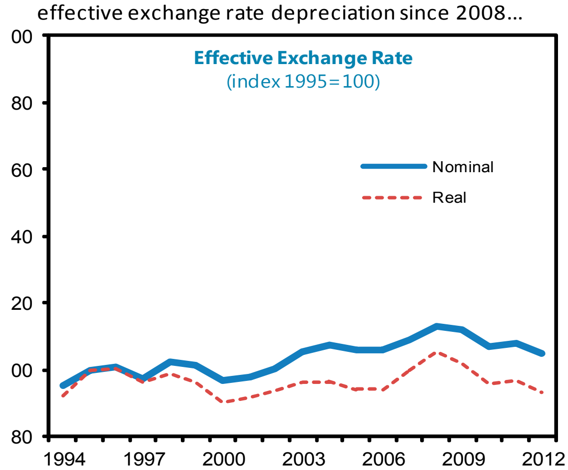
While Senegal's inflation remained on average close to trading partners…



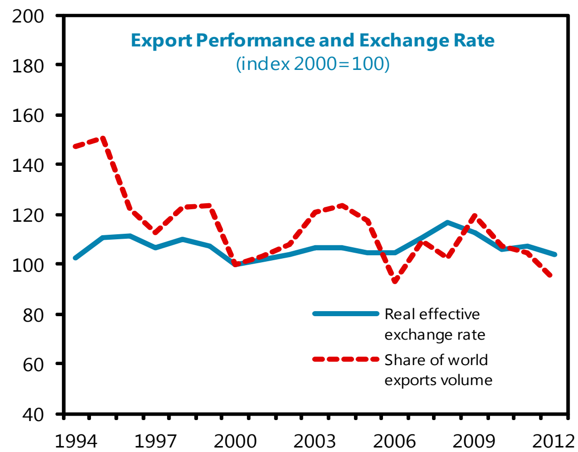
… the depreciation of the euro since 2008…



… has contributed to a moderate nominal and real effective exchange rate depreciation since 2008…



… which so far has little improved export performance.



Raising competitiveness requires improvements in institutions and infrastructure,…

Global Competitiveness Report	2011/2012	2012/2013	2013/2014
Overall ranking	111	117	113
Institutions	78	90	82
o/w Transparency of gov. policy making	103	84	63
o/w Diversion of public funds	107	122	102
Infrastructure	122	124	117
o/w Quality of electricity supply	133	134	129
o/w Quality of roads	93	97	97
o/w Quality of railroad infrastructure	94	105	98
Health and primary education	119	125	131
o/w Primary enrollment	131	129	134
Labor market efficiency	99	80	65
Financial market development	106	84	98
o/w Ease of access to loans	100	117	110
Number of countries	139	144	148

… as well as in the business climate.

Doing Business Indicators	2012	2013	2014
Overall ranking	154	166	178
out of	183	185	189
Starting a business	93	102	110
Dealing with construction permits	125	133	165
Registering property	171	173	174
Getting credit	126	129	130
Protecting investors	166	169	170
Paying taxes	174	178	182
Trading across borders	65	67	80
Enforcing contracts	145	148	167
Resolving insolvency	…	…	122

Sources: IMF staff calculations and estimates; World Economic Forum; and World Bank.

Appendix I. Letter of Intent

Dakar, Senegal
December 5, 2013

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

Madame Managing Director,

1. The government of Senegal requests completion of the sixth review under the Policy Support Instrument (PSI) of its macroeconomic program. 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 pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-June 2013, defines the macroeconomic objectives for the rest of 2013 and for 2014, and updates the structural reforms monitored under the program.

2. Program implementation has remained satisfactory. Despite the significant tax revenue shortfalls, all quantitative criteria and indicative targets under the program at end-June 2013 were met, including the budget deficit target. Progress was also made in structural reforms, even though the implementation of a number of measures took somewhat longer than expected.

3. We remain committed to achieving the programmed reduction of the fiscal deficit in 2013 despite the difficult circumstances. The reduction in the fiscal deficit will continue in 2014 and beyond with a substantial effort to improve the efficiency of public expenditure and make it more growth friendly. We are also committed to accelerating the pace of reform implementation, which is critical to raise Senegal's growth potential and improve substantially living standards.

4. A number of changes in program monitoring mechanisms are desirable. End-June 2014 quantitative assessment criteria and targets for end-December 2014 are proposed in the attached memorandum, together with new structural benchmarks. We also request that the ceiling on semiconcessional borrowing (financing having a grant element of 15–35 percent) be increased from CFAF 67 billion to CFAF 132 billion to facilitate the financing of high-return investment projects; this requires a modification of the assessment criterion for end-2013.

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 and in advance of revisions to the policies contained in the attached MEFP, in accordance with the Fund's policies on such consultation.. 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,

/s/

Amadou Ba
Minister of Economy and Finance

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

Attachment I. Memorandum of Economic and Financial Policies Dakar, December 5, 2013

Introduction

1. **Senegal is going through a critical phase in the implementation of its reform program.** Profound reforms are required to increase growth potential, create more jobs, and raise the standard of living for the population. These reforms have been subject to detailed preparation, and their implementation must now be accelerated. They will lead to enhanced economic efficiency, including in public sector activity, and will make it possible to improve public governance, ensure fiscal sustainability, and preserve macroeconomic stability—all important objectives of the program supported by the IMF. Clearly there will be obstacles in implementing the reforms, particularly resistance from those who fear they will be negatively affected by certain aspects of the program. While certain legitimate concerns should be borne in mind, we must consider the positive impact of the reforms on the overall economy and on public finance. This would bring room for maneuver to the government.

2. **This Memorandum of Economic and Financial Policies (MEFP) updates the program supported by the Policy Support Instrument (PSI) in 2011–14.**[1] The program aims to (i) conduct prudent fiscal and debt policy to preserve macroeconomic stability; (ii) increase revenue to generate more fiscal space to finance priority expenditure; (iii) continue efforts to strengthen fiscal management and governance; and (iv) promote development of the private sector by implementing structural reforms, primarily in the energy and finance sectors, as well as other reforms involving the business climate. The MEFP includes three sections. The first section covers recent economic developments and the program implementation. The second focuses on the macroeconomic objectives for 2013 and the medium term, and on macroeconomic policy and structural reforms. The last section summarizes the desired changes in program monitoring.

Recent Economic Developments and Program Implementation

3. **Recent macroeconomic developments have been broadly in line with the program projections.** In fact, economic activity measured by the general economic activity index, a proxy for non-agricultural GDP, registered cumulative growth of 3.7 percent for the first seven months of 2013, despite the slippage observed in the secondary sector. The tertiary sector registered satisfactory results for the period (+6 percent), attributable to transportation, telecommunications, and financial services. Overall, projected real GDP growth in 2013 was maintained at 4.0 percent, compared with 3.5 percent in 2012. Inflation measured by average prices during the first eight

[1] The content of this program was set out in the initial MEFP of November 10, 2010; as well as in the MEFPs of May 19, 2011; December 2, 2011; June 22, 2012; November 22, 2012; and June 3, 2013.

months of 2013 compared with prices during the corresponding period in 2012 amounted to 0.7 percent. A slight improvement in the trade deficit has been recorded in 2013 owing to rapid growth in exports and modest growth in imports. The increase in money supply was quite moderate.

4. **Program implementation has remained satisfactory.** Budget execution was characterized by substantial revenue shortfalls during the first eight months of the year. This disappointing performance is largely attributable to nontax revenue, value-added tax (VAT), and individual income tax. The decline in the latter in fact was greater than expected, giving taxpayers substantially more purchasing power. The decline in VAT revenue is in part a reflection of the recent tax reform, specifically the elimination of the VAT withholding applied by government agencies to large enterprises. This measure meant an improved cash position for the enterprises involved and should ultimately improve domestic VAT collection. Despite the tax revenue shortfalls, all quantitative criteria and indicative targets under the program at end-June 2013 were met, including the budget deficit target.

5. **The following progress has also been made in structural reforms:**

(i) Finalization of the treasury single account: work on the comprehensive survey of bank accounts held by government ministries, agencies, and institutions and on resistance tests has been completed. The impact study on closing certain accounts has also been completed. Each autonomous unit has been notified of the account streamlining measures to be taken.

(ii) Electronic filing and electronic payment of taxes by large enterprises: implementation of electronic tax filing options has begun, and approximately 20 large enterprises have already used the option. It has taken time to implement electronic payment processes because of more complex legal and administrative factors. Electronic payment has become operational for taxes on imports in November 2013 and is expected to be operational for other taxes in December 2013.

(iii) Use of cost-benefit analysis for large investments in the 2014 budget: no projects exceeding CFAF 10 billion have been forwarded to the Directorate-General of Planning (DGP), which is responsible for conducting the analysis. However, the DGP organized two training sessions (in July and August 2013) for members of the sectoral ministries' planning units, covering the cost-benefit analysis method, to ensure that the technical tools to evaluate the projects will be available.

(iv) Reorganization plan for agencies: the experts' report was completed in July 2013 and validated by the agency reform commission. The government adopted a strategy in November.

(v) Implementation of the new payroll management software: software development has been completed and implementation will begin in January 1, 2014. This activity was delayed because of payment and delivery problems with the supplier.

(vi) Submission of a new customs code to parliament: the draft was first internally validated by the Directorate-General of Customs (DGD). A sharing seminar was organized, and a joint monitoring committee established for the technical and financial partners and other administrations to submit the conclusions of the seminar and to validate the recommendations. However, the private sector requested and was granted more time to internalize the text. The new code was adopted by the Council of Ministers and submitted to parliament in November.

(vii) Submission of a draft law on asset declarations to the assembly: the draft was adopted in the July 11, 2013 session of the Council of Ministers and submitted to the assembly in November 2013.

Macroeconomic Policy and Structural Reforms for the Rest of 2013, 2014, and the Medium-Term

A. Macroeconomic Context for 2013 and 2014

6. **The external environment is expected to be more buoyant in 2014.** The modest acceleration in the world economy expected in 2014, the improved sociopolitical situation in the subregion, and good rainfall in 2013 bode well for an acceleration in exports and increased growth.

7. **Because of the less unfavorable international environment than in recent years, as indicated, GDP growth is expected to increase to 4.6 percent in 2014, compared with 4 percent in 2013.** We can expect this uptick in activity to be sustained primarily by investments in agriculture; infrastructure (extension of the northern road in Dakar, and of the highway from Diamniadio to the Blaise Diagne International Airport—AIBD—and from the AIBD to Mbour, continuation of works at the AIBD, etc.); energy (improved electricity distribution); implementation of the heavy minerals project in Grande Côte (zirconium) and gold mine projects; continuation of projects financed by the Millennium Challenge Account (MCA); and execution of projects in the social sectors. Inflation is expected to remain moderate at approximately 2 percent in 2014. Although on the decline, the balance of payments' current account deficit is expected to remain substantial because of investments in energy and mining.

8. **This scenario continues to be characterized by downward risks.** A sharper-than-expected growth slowdown in emerging countries and the continued toughening of financial conditions on the international markets constitute new external risks. The rise in interest rates on the world markets has already affected budget financing costs. Domestically, the main risks are insufficient fiscal consolidation and delays in implementation of reforms designed to make public expenditure and the energy sector more efficient.

9. **The progress made and new challenges** involved in implementing the key measures adopted under the program are presented in the rest of this section and are grouped in accordance with the four main objectives of the program.

B. Pursue Prudent Public Finance and Debt Policies to Safeguard Macroeconomic Stability

10. **The objective of reducing the fiscal deficit for 2013 remains unchanged.** The government intends to maintain its objective of reducing the fiscal deficit despite the difficult circumstances. Revenue collection efforts will be undertaken to narrow the shortfalls registered at the beginning of 2013. Savings are expected in the wage bill, in public debt interest payments, and with the postponement until 2014 of new investment projects financed with domestic resources.

11. **The reduction in the fiscal deficit will continue in 2014 and in the medium term with a substantial effort to improve the efficiency of public expenditure.** In accordance with the commitments the government has undertaken to preserve debt sustainability and restore fiscal space for the future, the budget deficit will be reduced to 4.9 percent of GDP in 2014 and to less than 4 percent in 2015. The modest downward revision in the deficit target for 2014 reflects a significant effort to increase public investment. The reduction in the deficit will come from a significant effort to increase revenue and to rationalize expenditure, with special emphasis on current expenditure. The state will increase the efficiency of its expenditure, which will limit the short-term impact on growth and will help increase growth potential in the medium term.

12. **Substantial efforts will be made to strengthen budget revenue.** These efforts will include, among other things, strengthened tax control and an expanded tax base through intensive use of available information sources. Tax policy measures are also envisaged (Box 1). The government plans to discontinue use of tax stabilization measures to support prices for petroleum products.

13. **Efforts to rationalize expenditure will continue**. Recent macroeconomic developments suggest the increase in the volume of public expenditure, including capital expenditure, has not produced the expected growth performance. These unfavorable developments emphasize the need to rationalize public expenditure to increase efficiency. Efforts in this area will be accelerated (Box 2):

Box 1. Measures to Increase Revenue

- **A variety of tax policy measures (expected gain of 0.1 percent of GDP):** (i) application of a uniform tax rate of 45 percent on all cigarettes (the increase will apply only to low-price cigarettes, for which the current rate will be increased from 40 to 45 percent); (ii) an increase in the minimum lump-sum tax limit from CFAF 5 million to CFAF 20 million; and (iii) elimination of the VAT exemption for indirect exports, particularly by land.

- **Measures to strengthen the tax and customs administration (expected gain of 0.2 percent or GDP).** As underscored in the IMF technical assistance reports, the tax administration has suffered from staff shortages that are adversely affecting revenue collection. In the immediate future, the Directorate-General of Taxes and Government Property (DGID) staff dedicated to survey, assessment, and supervision activities will be strengthened by assigning approximately 100 staff having the required skills to the DGID. These staff will comprise approximately 40 persons from the treasury and contractual staff who have received adequate tax training. Strengthening the work force will make the following activities possible: (i) definition by end-January 2014 of a strategy to resolve tax arrears, based primarily on a risk analysis; this strategy will be implemented in 2014 and assessed at the end of the year; (ii) a comprehensive audit of VAT credits by mid-2014 and application of punitive assessments to cases of fraud identified as a result of these efforts (fraud was found to be widespread in the preliminary assessments carried out with IMF experts on a sample); (iii) more active use of all information sources and the national registration number for enterprises and associations (NINEA). While the increased revenue collection potential in the long term is substantial, these measures will require sustained efforts.

Box 2. Measures to Rationalize Expenditure

Operating expenditure. An ongoing expenditure management module was implemented and shared with the concession holders (SENELEC, SDE, and SONATEL), and with the sectoral ministries. Invoice data will now be used and validated with this tool at the central and decentralized levels. The attribution of mobile telephone lines has already been formalized and approved and is in use, and the recommendations from the audit mission of the Inspectorate-General of Finance on fixed telephone data are currently being implemented. We expect these measures to generate savings of CFAF 11 billion in 2014, on telephone bills alone. Savings will also be made on staff housing provided to senior civil servants and members of government by replacing it with a housing allowance, which is more transparent and easier to regulate.

Wage bill. The civil service work force will increase in 2014 because of hiring measures announced in 2013 (mostly in the security forces) and through continued granting of tenure to contractual staff in education. Further, the government will take measures only on wages within the bounds of the macroeconomic framework, without affecting capital expenditure. Last, finalization of the civil service audit will make it possible to eliminate ghost workers.

Box 2. Measures to Rationalize Expenditure (Concluded)

Agencies. Rationalization of agencies will lead to substantial savings in the long term through greater efficiency and transparency in public action. It is possible, however, that this measure might entail restructuring costs in the short term (such as outlays related to the dismissal of contractual personnel). In 2014, agencies receiving substantial resources related to special fees, sufficient to cover their operating requirements, will no longer receive operating subsidies.

Agriculture. Efforts in 2013, with support from technical and financial partners, to target subsidies more effectively to inputs will be continued. This approach should lead to improved efforts to reconstitute seed capital and equipment in rural areas while generating CFAF 6.4 billion in estimated savings.

Education

- Wages for contractual personnel will be controlled more effectively after the implementation in January 2013 of the Finpronet system that will permit real-time monitoring of changes in the work force and staff distribution by school district. In addition, the survey of education staff has made it possible to redeploy teachers at the administrative level and from schools with too many teachers to those with shortages.

- In higher education, scholarships and assistance were made contingent on merit and household resources. In fact, in connection with the implementation of presidential decisions following the 78 consensual recommendations under the National Consultation Effort for the Future of Education in Senegal (CNAES), to strengthen internal efficiency, quality, and the "Study in Senegal" brand, the government has undertaken a review of the policy for granting international scholarships (targeting only preparatory classes, engineering schools, and sectors of national interest) and national aid and scholarships that, while supporting excellence and social equity (educational scholarships, those based on achievement, social scholarships, and aid), will now promote students' performance. To support the substantial efforts the public authorities have made in financing higher education, pursuant to the recommendations under the CNAES, the government also decided to diversify the sources of financing, in particular that the beneficiaries should participate in the financing of their education through reasonable increases in student registration fees. These policies, which will take effect in the 2013–2014 university year, will provide more resources for public higher education earmarked for training, and will permit control and programming of expenditure allocated for scholarships. This new policy will be designed to comply with the budget allocations, in which there was substantial slippage in 2013, and will be restored in 2014 to a level more consistent with the state's limited resources.

14. **The savings generated with this approach will also be used to finance priority programs to benefit the poor.** Such social security programs are effective instruments to reduce social inequalities and accelerate achievement of the Millennium Development Goals for 2015. More emphasis is placed on (i) the Family Security Allowance (*Bourse de Sécurité Familiale*—BSF); (ii) the

autonomous fund for universal social security (*Caisse Autonome de Protection Sociale Universelle*—CAPSU); and (iii) universal health coverage (CSU). The BSF is a monetary transfer to poor households, for which school enrollment and health care for school-age children are conditionalities. During the pilot phase, this program envisages payment of CFAF 25,000 per quarter to 50,000 targeted households by end-2013. It will reach 250,000 households at end-2017. Universal health coverage aims to provide health risk coverage for more than 65.5 percent of the population by 2017, in accordance with the national strategy to expand risk coverage. In the short and medium term, there are plans for reform in mandatory health insurance through the organization and operation of health provident institutions; development of basic universal health coverage through mutual health associations; strengthened management of existing free care policies (caesarian procedures, the *Plan Sésame* health financing scheme, human immunodeficiency virus—HIV, Expanded Programme of Immunisation—PEV, etc.); and implementation of the new free health care initiative for children under five.

15. **Contingent measures were identified to ensure that the budget targets are met for 2014 in the event certain risks should materialize.** Fiscal management during recent years has been affected by substantial uncertainty involving the level of revenue. Shortfalls have frequently led to capital expenditure adjustments at the end of the year, potentially making public intervention less effective. We would like to break away from this practice and more effectively anticipate revenue risks. The projections for 2014 are more conservative to reduce downward risks. Should revenue shortfalls nonetheless occur, additional revenue measures should be implemented no later than mid-2014 to preserve capital expenditure. Such measures would first be subject to discussion with IMF staff during the seventh program review.

16. **The medium-term debt management strategy has been updated.** The main objective is still to reduce vulnerabilities related to the debt structure through the gradual increase in average debt maturities on the market. Substantial progress was made in 2013, in particular with the issue of a 10-year bond for the first time on the regional market. During the previous review, the government had envisaged issuing a US$500 million Eurobond in 2013 and using the funds for semiconcessional borrowing to finance infrastructure investments. Because the current conditions on the international market are less favorable, the government decided to postpone the issue of the Eurobond until 2014. Syndicated financing of CFAF 250 billion, including the equivalent of CFAF 100 billion in euro, will make it possible to complete the financing of the 2013 budget under favorable interest rate (6.5 percent) and maturity (7 years) conditions. Moreover, the program of semiconcessional loans would be increased from CFAF 67 billion to CFAF 132 billion to execute three priority investment projects offering high levels of returns (14-20 percent) and with a concessionality rate of 22–32.5 percent.

C. Increase Revenue to Create more Fiscal Space to Finance Priority Spending

17. **The new tax code took effect in January 2013.** Its implementation is on course despite the problems that occurred during the first half of 2013 in the application of certain new provisions.

VAT credits cash reimbursement will begin in January 2014. Studies on the reforms required to complete modernization of the tax legislation will be initiated in 2014. These reforms entail, among other things, the rationalization of stamp duties, comprehensive taxation of the financial (banking and insurance) and telecommunication sectors, imposition of taxes on e-commerce, environmental taxation, and taxation of natural resources. To rationalize tax expenditure, measures will be taken so that the new tax code that establishes incentives will still be the only one applicable to accompany policies to promote investment and to make enterprises more competitive. Exceptions have been provided, however, related to interim measures to support some of the government's major projects. The projects involved were effectively targeted, and the tax relief was well specified in terms of scope and duration.

18. **Implementation of the plan to modernize the tax administration will be finalized by end-2013.** This reform will be accompanied by appropriate human resource management measures, specifically by the recruitment required to reduce the current deficit.

D. Strengthen Public Financial Management and Governance

19. **The restructuring strategy for the agencies was adopted.** Under the strategy, certain agencies will be eliminated or merged. The restructuring process will be completed by end-2014. While it is expected to generate substantial savings in the long term, this effort may initially have its costs. The effort will also entail enhanced management of the agencies that remain. Remunerations will be rationalized, beyond what was done in late 2012 for senior management, in order to narrow the gap with respect to the average civil service remuneration, which is about half that in agencies. The current legislation governing the agencies, which provides that any agencies created should be subject to in-depth cost-benefit analysis, will now be applied strictly (new continuous structural benchmark). Agencies will be required to submit strategies to be used as a basis for the signing and implementation of performance contracts. This process will begin in 2014 with the five largest agencies (new structural benchmark). Last, the Ministry of Economy and Finance will conduct infra-annual financial monitoring of the agencies' activities. Quarterly reports will be produced and shared with IMF staff.

20. **Implementation of West African Economic and Monetary Union (WAEMU) directives is continuing.** Quarterly budget outturn reports are regularly forwarded to the National Assembly and published. The Multi-year Economic and Budgetary Programming Document (DPBEP 2014–2016) has been produced, although it has not been discussed by the National Assembly. Further work involved codification of budget programs and functional classification to finalize implementation of the new state budget nomenclature (NBE). In terms of public accountability, the final report on execution of budget laws for the 2011 fiscal year, which accompanies the draft settlement law, was submitted to the National Assembly in August 2013. The draft settlement law for the 2012 fiscal year has been submitted to the Audit Court for assessment. As for the use of decrees on advances, only three were issued on an exceptional basis in accordance with the current regulations. The first two regulations were based on commensurate cancellations of appropriations, and the latter regulation was based on exceptional revenue (leasing) collected from SUNEOR, and a fee paid by Dubai Ports

World. All of these decrees were forwarded to the National Assembly Finance Committee, as dictated under the 2011 organic law with respect to budget laws.

21. **Tools were established to improve accounting, budget, and financial information.** They include the requirement to transmit quarterly reports on budget outturn to the treasury by the parastatal sector and the interface between the budget management system (SIGFIP) and the accounting system (ASTER) that can be used for monthly reconciliation of budget and accounting data. The interface between ASTER and SIGFIP, which should enable automatic authorization of payments in SIGFIP, will be completed no later than end-June 2014. Moreover, a draft instruction will be validated by end-2013 to enable all of the old treasury account balances to be cleaned up in 2014. A plan to implement a double-entry accounting system to be used by the accountants responsible for collections is being studied by the Directorate-General of Public Accounting and Treasury (DGCPT). Last, in connection with implementation of the single treasury account (CUT), a system will be established by end-April 2014 to enable the Treasurer General to have access to information on the balances of bank accounts opened in the name of direct accountants of the treasury on the books of the Central Bank of West African States.

22. **Management and control of the wage bill** will be improved through (i) implementation of the new payroll management software planned for the beginning of January 2014; and (ii) provision of a tool for forecasting and control of wage bill execution in partnership with the Regional Technical Assistance Center for West Africa (AFRITAC West). The wage bill will be integrated into SIGFIP in connection with the interface between SIGFIP and the new payroll management software. The payroll register will be cleaned up after the ministry responsible for the civil service publishes the results of the physical and biometric audit of government staff.

23. **Cost-benefit analysis will be used more extensively.** An objective of one third of capital expenditure included in the 2015 budget will be subject to such analyses. The analyses conducted on the five largest investment projects included in the 2015 budget will be forwarded to the National Assembly at the same time as the draft budget law (new structural benchmark).

E. Private Sector Development

a. Energy sector

24. **The plan to develop energy production for 2013–2017 is based on an energy mix policy combining coal, natural gas, hydroelectricity, and renewable energy sources.** The plan provides substantial supplementary capacities that will yield an abundant supply of energy and lead to a large reduction in production costs. This effort should generate a gradual reduction in the weight of the electricity sector in the budget, which is expected to exceed 2 percent of GDP once again this year. Implementation of this plan, which has been delayed, will be accelerated and subject to regular communication with the stakeholders. It covers the following installations: the 15 MW Félou hydroelectric power station in 2013; a 70 MW independent power producer (IPP) in Tobéne (Taiba Ndiaye) in 2015; a 125 MW coal-fired IPP (Sendou) at end-2015; 80 MW in imports from the Mauritania natural gas plant at end-2015; a 250 MW coal-fired IPP with Kepco in 2017–18; and

renewable energy projects. Fallback projects were negotiated in light of the delays in negotiations and implementation lags. An agreement was signed with Africa Energy for a 300 MW coal-fired IPP in Mboro in 2016. Further investments are planned in transportation and distribution systems through the strengthening and modernization of networks, substations, and high tension lines. To reach the objective of 60 percent rural electrification by 2016, a three-year priority rural electrification program (2014-2016) is currently being prepared.

25. **The performance contract between the state and SENELEC signed in June 2013 will be implemented in a transparent manner.** A monitoring committee for the performance contract will meet at least once every quarter to examine the monitoring reports submitted by SENELEC. The report from the monitoring committee and the performance agreement audit will be published to keep the various parties informed of progress made in this area. The first publication will entail a survey of the electricity sector, including the financial situation, and the authorities' reform strategy for the sector. This assessment and strategy will be subject to consultation with the key stakeholders in the sector and will serve as a basis to produce shared diagnostics (new structural benchmark). The 2012 accounts for SENELEC were certified in November 2013.

26. **Preparation of a strategic reform plan for Société Africaine de Raffinage (SAR) was delayed so its board of directors could become more effectively involved.** A study on the industrial future of SAR and its role in supplying the country with petroleum products was awarded to a consultant following a bidding process. The conclusions of this study will be examined during the SAR's general shareholders' meeting scheduled for end-2013.

b. Financial sector

27. **The updating of the action plan for national consultation on credit, which had been delayed, was completed.** All measures under the plan were re-examined, and new deadlines were proposed to replace those that had expired, while other activities found to be no longer relevant were reformulated or eliminated. Accordingly, an updated, operational action plan was produced at end-May 2013. It comprises 65 operational measures, including 47 with fixed deadlines (24 of which have already been completed) and 18 continuous. Implementation of the plan should be completed by end-2014. Key measures include the following: (i) promotion and development of factoring; (ii) reduction in delays for registration of guarantees or pledges; (iii) reduction of lags in obtaining statements on liens from the courts; (iv) institution of a register with the court registry to enable nontrade entities to register mortgages and pledges on real property; (v) accelerated implementation of the risk reporting and analysis center for microfinance institutions (SFDs).

F. Other Factors to Improve the Business Climate, Governance, and Competitiveness

28. **The commission on land reform, established at end-2012, has become operational.** This reform is designed to establish transparency in both rural and urban land management. In fact, high levels of demand from private investors for access to rural land required for the development of structuring activities has led to a need for an overhaul of the land legislation and the definition of

property policy so that a more balanced approach to land management can be applied. An inclusive reform approach will be used, and this commission's work will be completed in 2015.

29. **Implementation of the reform program for the business climate and competitiveness continues (2013–2015).** Progress has been made in the establishment of businesses, with 24 hours only needed for corporations and plans for the process to be fully electronic by end-2013. The new entrepreneurial regulations should be incorporated into the Senegalese legislation by end-2013. The procedure for electronic filing and assessment of applications for construction permits has been undertaken and should make it possible to obtain permits in Dakar in 28 days. The merger of property registration and publishing procedures for transactions published in the property register has become effective, and the ownership transfer rate was reduced from 15 percent to 10 percent. Transaction authorizations were eliminated, making it possible to reduce the delay by 50 days. Improvements in commercial justice to provide better protection for investors have led to reduced contract execution delays. The legal and institutional framework for public-private partnerships is now being revised. Adoption of the new law is planned for November 2013. Full use of the automated procedure for cross-border trade, effective from March 2013 for pre-customs and customs clearance procedures, has led to a reduction of import and export periods to a maximum of nine days.

Program Monitoring

30. **In light of the preceding sections, a number of changes in program monitoring mechanisms are desirable.** End-June 2014 quantitative assessment criteria and targets for end-December 2014 are proposed. The same applies for the structural benchmarks provided in Table 4 of the MEFP. The ceiling on semiconcessional borrowing (financing having a grant element of 15–35 percent) would be increased from CFAF 67 billion to CFAF 132 billion; this would require a modification of the assessment criterion for end-2013. The seventh PSI review should normally be concluded by end-June 2014 and the eighth review by December 2, 2014.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2012—2013

(CFAF billions, unless otherwise specified)

	December 31, 2012	March 31, 2013			June 30, 2013				September 30, 2013	December 31, 2013
	Prog.	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.
Assessment criteria [1]										
Floor on the overall fiscal balance [2] [3]	-425	-101	-20	met	-203	-190	-155	met	-304	-406
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	500	300	met	800	…	300	met	800	800
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	0	met	0	…	0	met	0	0
Ceiling on government external payment arrears (stock) [4]	0	0	0	met	0	…	0	met	0	0
Ceiling on the amount of the budgetary float	50	50	25	met	50	…	46	met	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	44	0	met	67	…	0	met	67	132
Indicative targets										
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	20	13	met	20	…	14	met	20	20
Floor on social expenditures (percent of total spending)	35	…	…	…	35	…	35	met	…	35
Floor on tax revenue	…	…	…	…	…	…	…	…	…	1,434
Maximum upward adjustment of the overall deficit ceiling owing to										
Shortfall in program grants relative to program projections	15	15	…	…	15	…	-9	…	15	15
Excess in concessional loans relative to program projections	50	50	…	…	50	…	-22	…	50	50
Memorandum items:										
Program grants	48	10	…	…	19	…	10	…	29	38
Concessional loans	323	52	…	…	111	…	89	…	156	221

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

[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.

Table 2. Quantitative Assessment Criteria and Indicative Targets for 2013–14

	(CFAF billions, unless otherwise specified)				
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	Prog.	Prog.	Prog.	Proj.	Proj.
Assessment criteria [1]					
Floor on the overall fiscal balance [2] [3]	-406	-100	-198	-297	-396
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	800	800	800	800	800
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]	132	132	132	132	132
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
Floor on tax revenue	1,434	374	781	1,156	1,561
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
Memorandum items:					
Program grants	38	10	21	32	42
Concessional loans	221	65	119	178	237

[1] Indicative targets for March and September, 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.

Table 3: Structural Benchmarks

Measures	MEFP § 03/06/ 2013	Implementation date	Benchmark for review	Macroeconomic importance	Status
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT					
Submit new Customs Code to Parliament	18	Rescheduled to September 30, 2013	6th	Increase the government resources and encourage private sector development	Implemented in November 2013
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT					
Produce a plan to restructure all agencies and comparable entities	22 (prev. MEFP)	July 31, 2013	6th	Strengthen public financial management	Implemented in November 2013
Roll out the new payroll management software	12	August 31, 2013	6th	Strengthen public financial management	Not met
Use cost-benefit assessment for investment projects exceeding CFAF 10 billion to be included in the budget for 2014	24 (prev. MEFP)	July 31, 2013	6th	Improve efficiency of government expenditure	Not met
Submit to the Assembly a draft law on disclosure of assets	19	January 1, 2014	7th	Strengthen fiscal transparency	Implemented in November 2013
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, ENHANCING GOVERNANCE, AND ACHIEVING GREATER EFFICIENCY IN THE ENERGY SECTOR					
Roll out on-line filing and on-line payment of taxes for all tax payers in the Dakar area	17	June 30, 2013	6th	Enhance efficiency of government and improve the business climate	Implemented in November 2013 for taxes on imports; implementation expected in December 2013 for other taxes
Roll out on-line filing and on-line payment of taxes for large enterprises	17	January 1, 2014	7th	Enhance efficiency of government and improve the business climate	Ongoing

Table 4: New Structural Benchmarks

Measures	MEFP Para-graph	Application date	Bench-mark for review	Macroeconomic importance
All agency creation will be subject to an in-depth cost-benefit analysis.	19	Continuous	Continuous	Improve the quality of public expenditure and transparency
Presentation by the five largest agencies of strategies and implementation of performance contracts.	19	June 30, 2014	Eighth	Improve the quality of public expenditure and transparency
The cost-benefit analyses carried out on the five largest investment projects included in the 2015 budget will be sent to the National Assembly at the same time as the draft budget law.	23	October 15, 2014	Eighth	Improve the quality of public expenditure and transparency
The reports of the SENELEC performance contract monitoring committee and the audit on implementation of this performance contract will be covered by publications. The first publication will include a survey of the electricity sector, including its financial situation, as well as the strategy of the authorities for reform of the sector. This assessment and strategy will be subject to consultation with the main stakeholders in the sector.	25	March 31, 2014 (for the first report)	Eighth	Promote private sector development

Attachment II: Technical Memorandum of Understanding
Dakar, December 5, 2013

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 2011–2014. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

Program Conditionality

2. The quantitative assessment criteria for end-December 2013 and end-June 2014, and the quantitative targets for end-March and end-September 2014, are shown in Tables 1 and 2 of the MEFP, respectively. The structural benchmarks established under the program are presented in Table 3 and Table 4.

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, 2012, is minus CFAF 420 billion. It is calculated as the difference between total government revenue (CFAF 1,670 billion) and total expenditure and net lending (CFAF 2,090 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.

Reporting requirements

8. 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

9. 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 investment projects of the power sector reform plan.

Reporting requirements

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

D. Budgetary Float

Definition

11. 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

12. 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

13. 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.

14. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 12, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Government External Payments Arrears

Definition

15. 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 17 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

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

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

17. 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.

18. **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).

19. **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 rate used for this purpose is 5 percent.

[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.

20. **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.

21. **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.

22. **Special provisions**:

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$800 million applies over the period 2011–14 for nonconcessional external debt financing to be used for investment projects, including in road infrastructure, the energy sector, and urban water and sanitation, and to reduce the recourse to regional market financing. Following the issuance of a Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2013–14 is US$500 million.

c) A separate ceiling equivalent to CFAF 132 billion in 2011–14 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

23. 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.

H. Public Sector Contracts Signed by Single Tender

Definition

24. 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

25. 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.

I. Tax Revenue

Definition

26. Tax revenue is the sum of revenue from taxes on income, goods and services, and petroleum products. The indicative target will be assessed on the basis of the data for such revenue provided in the quarterly TOFE.

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*). This also includes acts leading to the creation of a new agency or fund.

(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 monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.

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.

(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) investment projects in the power sector; (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 (within 3 weeks).

INTERNATIONAL MONETARY FUND

SENEGAL

December 5, 2013

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF AN ASSESSMENT CRITERION—INFORMATIONAL ANNEX

Prepared By

The Staff of the International Monetary Fund in Consultation with the World Bank.

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2013)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	161.80	100.00
Fund holdings of currency (Exchange Rate)	159.93	98.84
Reserve Tranche Position	1.88	1.16
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	154.80	100.00
Holdings	130.16	84.08
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	121.35	75.00
ECF Arrangements	7.97	4.93

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.

Projected Payments to Fund 2/

(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2013	**2014**	**2015**	**2016**	**2017**
Principal		11.56	24.15	25.66	24.27
Charges/Interest	0.00	0.02	0.30	0.24	0.18
Total	0.00	11.58	24.45	25.89	24.45

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

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 cannot 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.

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.

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 2013 assessment of the BCEAO is underway and a safeguards mission to Dakar took place in September 2013. The preliminary findings of the assessment are that the bank continues to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The mission also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

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" (Country Report No. 12/59 of March 12, 2012).

Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on December 10, 2012 (Country Report No. 12/337). In concluding the 2012 Article IV consultation, Executive Directors commended Senegal's satisfactory program implementation despite the challenging internal and external environments. They stressed that although a moderate pickup in growth is expected in the near term, the economy remains exposed to substantial risks.

Directors welcomed the authorities' continued commitment to their program to ensure macroeconomic stability, strengthen the economy's resilience to shocks, foster higher and sustainable growth, and reduce poverty. Directors noted that, while Senegal still faces a low risk of debt distress, high fiscal deficits and rising debt ratios need to be addressed. They welcomed the authorities' commitment to keep the deficit under 6 percent in 2012 and their determination to reduce the deficit further in the medium term to levels that are consistent with fiscal and debt sustainability. Directors also highlighted the importance of stronger debt management. They welcomed the recently finalized medium-term debt strategy, and encouraged the authorities to rely primarily on concessional financing.

Directors underscored the need to improve public financial management and government spending efficiency and transparency. They commended ongoing efforts to reduce the cost of running government, streamline public agencies, and rationalize expenditure in key sectors. Directors stressed that phasing out the costly and poorly targeted energy price subsidies while strengthening social safety nets is a priority. Sustained progress in all these areas will be necessary to meet the country's fiscal objectives and make room for critical social and development needs.

Directors noted that the financial sector is generally robust. However, the rising level of NPLs and concentration of lending need to be closely monitored. To move Senegal to a path of higher, sustainable, and inclusive growth, Directors stressed the need to address infrastructure gaps, remove inefficiencies in government operations, and improve the business climate. They welcomed the tax and customs reforms that are underway and called for timely implementation of the new energy investments and restructuring of SENELEC, the national power utility. Directors also encouraged the authorities to deepen and strengthen the financial system to support their growth strategy.

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 2000 and 2001. The Financial System Stability Assessment (FSSA) was issued in 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in 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 2007 and the FSSA was issued in May 2008 (SM/08/139).. A ROSC on the data module was published in 2002. An FAD mission conducted a ROSC on the fiscal transparency module in 2005.

Technical Assistance (2008–12):

A. AFRITAC West

Year	Area	Focus
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

Year	Area	Focus
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
2013	Public Expenditure Management Public debt analysis Public debt management	Central government accounting Financial regime of autonomous agencies DSA workshop Help the authorities produce a national borrowing policy document.

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	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
	Sept. 2011	Staff /Expert	Revenue administration

Department	Date	Form	Purpose
	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
	May & Sept. 2012, and Feb. 2013	FAD Staff/Experts	TPA multi-Module Missions on tax reform and revenue administration
	March 2012	FAD Experts	PIT and Taxation of the Banking and Telecoms Sectors
	July 2012	FAD Experts	Budget Execution, Fiscal Reporting, and Cash Management
	January 2013	FAD Expert	Strengthening Cash Management and Treasury Single Account
	Feb. 2013	FAD Expert	Decentralization of budget authority
	Feb. 2013	FAD Expert	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	March 2013	FAD Experts	Wage Bill Budgeting and Execution Capital expenditure forecasting
	March 2013	FAD experts	Mining and tax exemptions VAT documents and exemptions
	April 2013	FAD experts	Customs diagnostics and administration
	June 2013	FAD experts	External grants budgeting
	July 2013	FAD experts	Government accounting, cash management
	Sept. 2013	FAD Staff/Experts	Tax policy administration
Monetary and Capital Markets	Sept. 2010	Staff	Needs assessment
	Jan.-Feb. 2011	Staff/World Bank	Medium-Term Debt Strategy (MDTS)

Department	Date	Form	Purpose
Statistics	Nov. 2008	Staff	SDDS assessment
	April 2009	Staff	Government finance statistics
	Aug. 2011	Staff	National accounts
	Nov. 2011	Staff	Monetary and financial statistics
	Nov. 2013	Staff	Government finance statistics
Legal	Jan-Feb 2012	LEG Staff/Expert	Tax law (general, VAT)
	Jan-Feb 2012	LEG Expert	VAT
	May 2012	LEG Staff/Expert	Tax law (general, tax procedures)
	June 2012	LEG Expert	Tax procedures

Resident Representative

Stationed in Dakar since July 24, 1984; the position has been held by Mr. Boileau Loko since September 2013.

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 the progress achieved 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

Title	Products	Topic	Expected delivery date
A. Mutual information on relevant work programs			
World Bank	Public finance management technical assistance project	Investment project appraisal manual, evaluation of agencies, budget management information systems, internal and external audit, debt management	
	Development policy operation	Governance, education and health reform, energy sector	December 2013 (Board)
	Energy sector dialogue	Senelec performance, investment planning, finances	Ongoing
	Mining sector TA	EITI and regulatory framework	
	Social protection policy notes	Overview of programs, responses to shocks, targeting	
	Poverty and gender policy notes	Trends, profile, gender, regional, employment, social sectors	
	Statistics for Results project	Labor market, services, construction data and capacity-building	
	Debt management TA	Advice on external borrowing	
IMF	**IMF-supported program**		
	Sixth PSE Review		December 16 2013 (Board)
	Seventh PSI Review mission (March 2014)		July 2014 (Board)
	Eighth PSI Review mission (September 20143)		December 2014 (Board)
	Technical Assistance		
	Revenue administration	Six expert visits	FY 2013
	PFM	A resident advisor at the Treasury	Until Sept. 2014

	Statistics	Data Work: SRFs Data Development	May 2013
B. Requests for work program inputs			
Fund request to Bank	Update on the implementation of prior actions for budget support	Note	December 2014
	Participate in the mission on public expenditure review	Experts in the areas of WB expertise	February
	WB programs in the social sector and education	Information sharing	
	Energy sector reforms	Information sharing, estimation of the tariff gap, expertise of the investment plan	Continuous
Bank request to Fund	Set of macro tables	Updates on macro developments	Continuous
C. Agreement on joint products and missions			
Joint products	Public expenditure review	Joint mission	February
	Consultative Group	Donor and private sector conference to attract financing for NSESD	2014

Senegal: Table of Common Indicators Required for Surveillance

(As of November 2013)

	Latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality Accuracy and reliability[9]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	06/2013	09/2013	M	M	M		
Reserve/Base Money	06/2013	09/2013	M	M	M		
Broad Money	06/2013	09/2013	M	M	M	LO, LO, O, O	LO, O, O, LO
Central Bank Balance Sheet	06/2013	09/2013	M	M	M		
Consolidated Balance Sheet of the Banking System	06/2013	09/2013	M	M	M		
Interest Rates[2]	06/2013	09/2013	M	M	M		
Consumer Price Index	08/2013	10/2013	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/2013	09/2013	M	M	M	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt[5/11]	2012	09/2013					
External Current Account Balance [10/11]	06/2012	09/2013	A	A	A		
Exports and Imports of Goods and Services [10/11]	06/2012	09/2013	A	A	A	O, O, O, O	O, O, O, O
GDP/GNP [10/11]	2012	09/2013	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt [11]	2012	09/2013	A	I	A		
International Investment Position [6/]	2012	09/2013	A	A	A		

1 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
2 Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3 Foreign, domestic bank,, and domestic nonbank financing.
4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5 Including currency and maturity composition.
6 Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7 Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
8 Reflects the assessment provided in the data ROSC published in 2002 and based on the findings of the mission that took place in 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
9 Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.
10 Estimate.
11 Reported to staff during mission.

Press Release No. 13/539
FOR IMMEDIATE RELEASE
December 20, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review of Policy Support Instrument for Senegal

The Executive Board of the International Monetary Fund (IMF) completed today the sixth review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI).

The PSI was approved by the Executive Board on December 3, 2010 (see Press Release No. 10/469). The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven (see Public Information Notice No. 05/145).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"Economic developments and prospects remain favorable. Activity has accelerated slightly and GDP growth is on track to reach 4 percent in 2013. Inflation remains subdued, with consumer price inflation below 1 percent. Growth is expected to increase further in 2014 while inflation would remain moderate.

"Program performance has been mixed. While all quantitative program targets for mid-2013 have been met, structural reform implementation has slowed significantly and most structural benchmarks have been met with delay.

"Prudent macroeconomic management will continue to help preserve debt sustainability and restore margins for fiscal maneuver. The fiscal deficit target for 2013 remains within reach, and a further reduction of the deficit is expected in 2014. Attaining future targets will require strengthening the revenue base and streamlining current expenditure while allowing for an increase in public investment and the development of the social safety net.

"A more rapid implementation of the structural reform agenda, including of public financial management reforms, would bring substantial benefits. The reform of public agencies and greater use of cost-benefit analysis for the selection of investment projects will improve transparency and efficiency of public spending. Better control over the wage bill will eliminate inefficiencies and create room for social spending.

"Slow reforms in the energy sector represent a major obstacle to economic growth and carry substantial fiscal risks. The introduction of cost-effective technologies needs to accelerate. The investment plan should focus on a few critical projects and have a realistic implementation timeline. The situation of the sector—including the true fiscal cost of supporting it—the reform strategy, and its implementation should be clearly communicated to all the stakeholders," Mr. Zhu said.

Statement by Mr. Assimaidou and Mr. Diallo on Senegal
Executive Board Meeting
December 20, 2013

The Senegalese authorities have embarked on a critical phase of reforms, with the objective of helping the country reach an emerging market status through the acceleration of growth, the creation of jobs, and the improvement in the living standards of the population. In this endeavor, they have been designing and implementing a wide range of policies and reforms in close collaboration with the country's development partners and benefited from the valuable policy advice of the Fund and its staff for which they are grateful.

Despite the progress made toward the objectives of Senegal's Policy Support Instrument (PSI), a number of unanticipated events in recent months, caused some reform measures to be implemented behind the program's original schedule. These events include longer-than-expected consultations with private stakeholders on some critical actions, sporadic lack of coordination between reform actors, and a Cabinet reshuffle. The new government has signaled a strong political commitment to reforms and reaffirmed its determination to accelerate their implementation. Looking ahead, implementation of the PSI program will proceed in line with the authorities' commitments, focusing notably on the need to sustain progress toward program objectives, advance the fiscal policy and reform agenda, and promote private sector development.

Securing Good Performance under the PSI

In recent months, the authorities' economic program supported by the PSI registered noticeable progress. All quantitative assessment criteria and indicative targets set for end-June 2013 were met, reflecting the authorities' attachment to prudent macroeconomic management. In particular, the authorities achieved the mid-year program target for the fiscal deficit in spite of the significant revenue shortfalls partly triggered by recent reforms of the tax system. In addition, public debt management proceeded in line with program commitments. In fact, recent initiatives taken on this latter front and reported in our previous Board statements were instrumental in strengthening the country's debt management practices, thus motivating the Fund's recent decision to upgrade Senegal to the category of LICs with higher macroeconomic and public financial management capacity.

On the structural front, progress was made toward the program objectives of strengthening public financial management, improving and modernizing revenue collection, and enhancing the business environment. Specific steps taken to this end included the finalization of a plan for restructuring public agencies, the establishment of the Treasury single account, cabinet's adoption of a new customs code and its submission to the parliament, and the launch of electronic filing and payment systems.

Going forward, the reform agenda will be implemented unwaveringly with a view to achieving program objectives. As part of their efforts to further improve public financial management, a new payroll management system is expected to be launched at the beginning of next year. Following recent efforts to build the capacity of sectoral ministries to conduct costs-benefit analyses, increased recourse to such analyses is also anticipated. These practices will go a long way toward improving fiscal transparency and the efficiency of public spending. In this connection, the authorities envisage to annex those carried out on the five largest investment projects to the 2015 draft budget law when the latter is submitted to the parliament.

Advancing the Fiscal Policy and Reform Agenda

In 2014, the authorities will continue to ensure prudent fiscal management with a view to preserving macroeconomic stability and debt sustainability. The downward path followed by the fiscal deficit in recent years is expected to be sustained, as the authorities aim to contain its share of GDP below 5 percent. In order to achieve this objective, efforts will be made to strengthen revenue performance while reining in current expenditure and improving its efficiency.

On the revenue side, resolute reforms to customs and tax administrations will be pursued, thereby perpetuating their significant contribution to the country's relatively strong revenue performance. Opportunities for increasing tax revenues are expected to be created bycontinuous capacity building within these entities as well as actions aimed at improving tax collection and broadening the tax base. In line with the objectives of the new tax code, the authorities will carry out necessary actions to finalize the process of modernizing tax legislation, begin implementation of the recent reform to the VAT credit refund, and streamline tax expenditures.

With regard to public expenditures, arrangements have been made with concerned providers to curb the increasing trend of public sector's phone and utility bills. At the same time, additional fiscal space is poised to be created by the audit of the civil service based on which a Cabinet's decision was taken last week to suspend the salaries of about 11,000 unaccounted civil servants pending authentication of their employment status. Though likely to be associated with long-term payoffs, implementation of the recently approved restructuring plan for agencies should generate significant savings, notably through the announced merger and elimination of some of them, alignment of their staff's remuneration with the average salary of other civil servants.

Beyond savings considerations, the authorities' reform program with respect to public agencies is also driven by their strong desire to improve efficiency and transparency in the management of public finance. For this reason, the use of performance contracts is expected to be increasingly prevalent with a view to securing agencies' progress toward their strategic objectives. In addition, the rationale for creating any new agencies will be expected to be supported by well-evidenced cost-benefit analyses.

Furthermore, it is the authorities' intention to consolidate recent improvements in public financial management notably by exerting better control over the wage bill, implementing the single Treasury account, and expanding the scope of the budget management system. As the new payroll management system will be operational next year, capacities in terms of forecasting and monitoring of the wage bill will be concomitantly built.

The authorities will remain vigilant about the need to protect vulnerable households while working to reduce gradually the deficit over the medium term. As a result, measures aimed at strengthening the social safety net will continue to rank high among their priorities, including the broadening of basic health insurance coverage, assistance to farmers, and propoor allocation of conditional cash transfers. In addition to the projected deficit reduction, macroeconomic stability and debt sustainability will also continue to be served by continued implementation of the medium-term debt management strategy along with continued emphasis on strengthening debt management capacities.

Promoting Private Sector Development

In support of the authorities' private sector development agenda and accelerated growth strategy, the ongoing strategic investments in the energy sector will play an instrumental role. Indeed, the sharp increase in the country's power generation and distribution capacities that these investments will help build up in the medium term is anticipated to drive down production costs in a significant manner. In turn, this is expected to have positive effects on social welfare, public finance, and economic performance notably by making electricity consumption more affordable for households and businesses, improving competitiveness, and reducing fiscal risks and energy subsidies.

Furthermore, the authorities' long-standing goal of reducing fiscal risks arising from the energy sector will be served by the increased focus being put on strengthening the accountability of the electricity company, SENELEC, through regular issuance of monitoring reports on its performance contract with the State. The firm intention to put these monitoring reports in the public domain and to maintain close consultations with key non-governmental stakeholders in the design and implementation of the energy sector reform strategy also signal the high premium put by the authorities on securing efficiency and transparency in the sector.

Several other aspects of the authorities' structural reform agenda will continue to be implemented with a view to strengthening the private sector-led economy. These include financial sector reforms embodied by the updated comprehensive action plan that was originally designed in consultation with concerned stakeholders, notably with the aims of improving financial deepening, access to credit, banking intermediation, and the business environment in which financial institutions operate. Other structural reforms defined over a three-year horizon are also designed to boost private sector development and improve competitiveness by enhancing the framework for public-private partnerships, reducing red tape, further securing property and contractual rights, and strengthening the legal framework for land tenure and transactions.

Conclusion

The objectives of Senegal's Policy Support Instrument (PSI) reflect the emphasis put by the country authorities on the importance of preserving macroeconomic stability, creating space for pro-poor and pro-growth spending, and promoting private sector development. In this regard, they have continued to implement steadfastly the policies and reforms designed to achieve these objectives and Fund's assistance has been critical in support of their efforts. However, much more needs to be done despite these achievements. The authorities remain fully committed to pursuing the reform process and implementing a transformative growth strategy.

In light of Senegal's program performance and the strong commitment of the Senegalese authorities to the program objectives, we call on Directors to support the Senegalese authorities' request for the completion of the sixth review under the PSI.