INTERNATIONAL MONETARY FUND

SENEGAL

Senegal—First Review Under the Policy Support Instrument

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

Approved by Roger Nord and Thomas Dorsey

May 20, 2011

Program discussions were held in Dakar March 23–April 6, 2011, and continued in Washington April 15–18, 2011. The team comprised Mr. Funke (head), Mr. Kireyev, Mr. Vermeulen, Mr. Mpatswe (all AFR), Ms. Shabunina (FAD), Mr. Painchaud (SPR), Ms. Fichera (resident representative), and Mr. Ba (resident representative office). Mr. Sembene (OED) participated in the discussions. The team met with Finance Minister Diop, Deputy Energy Minister Sarr, International Cooperation and Infrastructure Minister Wade, BCEAO National Director Diop, other senior government officials, and representatives of development partners and the private sector.

Seminars and outreach: In two half-day seminars, the authorities presented the findings of their study on potential output in Senegal, and the team made presentations on fiscal risks and stress testing. The mission met with representatives of trade unions.

Fund relations: The second three-year Policy Support Instrument (PSI) was approved by the Board on December 3, 2010. The last Article IV consultation was concluded in May 2010.

First PSI review: Staff recommends completion of the review with one waiver for nonobservance of the quantitative assessment criterion on the fiscal deficit target because of the small margin and the corrective action taken by the authorities. The program target was missed by 0.2 percent of GDP because of lower-than-projected oil-related revenues. Ongoing energy sector reform will be conducive to raising oil-related tax revenues. Structural conditionality was largely observed.

PSI: In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the authorities review reform progress and describe their objectives and reform plans for 2011 and early 2012.

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Abbreviations

AC	assessment criterion
AFD	French development agency
AIBD	Airport project company
ARMP	Procurement regulatory authority
ASTER	expenditure accounting system
BCEAO	Central Bank of West African States
CIRR	commercial interest reference rate
COSEC	Senegalese Shippers Council
CPIA	Country Policy and Institutional Assessment
CFAF	CFA Franc
DCMP	Central public procurement directorate
DSA	debt sustainability analysis
DGID	Taxes, Land, and Property General Directorate
DGD	Customs Directorate
DPES	Document of Economic and Social Policies
FSE	Energy Sector Support Fund
FSIPP	specific surcharge on petroleum products
FSAP	Financial Sector Assessment Program
GDP	gross domestic product
ICS	Phosphoric acid production company
IGF	Office of the Inspector General of Finance
MCA	Millennium Challenge Account
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
NFA	net foreign assets
NPV	net present value
NPL	nonperforming loan
PEFA	public expenditure and fiscal accountability
PFM	public financial management
PPP	public-private partnership
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
REER	real effective exchange rate
SAR	oil refinery company
SDR	Special Drawing Rights
SENELEC	Government-owned electricity company
SIGFIP	integrated public financial management system
SSA	sub-Saharan Africa
TMU	Technical Memorandum of Understanding
TOFE	government financial operations table
VAT	value-added tax
WAEMU	West African Economic and Monetary Union

Executive Summary

The economic recovery is continuing. Performance under the current PSI-supported program has been broadly satisfactory, with a somewhat higher-than-programmed fiscal deficit, some continued weaknesses in public financial management, and some minor delays in structural reform implementation. Since the start of the second PSI, two new developments have been affecting economic policies and prospects: (i) a recently completed restructuring plan for the energy sector, which entails additional fiscal costs, and (ii) higher international food and fuel prices.

Continuing recovery: Recent indicators of activity suggest that growth continues to pick up. Real GDP growth is projected to reach 4½ percent in 2011. Because of higher food and fuel prices, consumer price inflation is projected to edge up to an annual average of 3.8 percent in 2011.

Program performance: All continuous and end-December 2010 assessment criteria (AC) were met, except for the AC on the basic fiscal deficit, which was missed by a small margin (0.2 percent of GDP) because of lower-than-projected oil-related revenues. By early May, the authorities implemented all six structural benchmarks for the first PSI review, despite small delays with two of them. Expenditure reallocations early in the year point to continued weaknesses in public financial management.

Difficult policy trade-offs: Estimated financing needs for short-term emergency measures and medium-term investments in the energy sector are large (more than 10 percent of 2011 GDP during 2011–15). To finance the restructuring plan, the authorities have adopted some new tax measures and reallocated budgetary resources. With little risk of overheating in 2011, a somewhat higher-than-programmed fiscal deficit also appears appropriate to address the energy crisis. A supplementary budget in line with the revised macroeconomic framework will be finalized by late May (prior action). However, to preserve debt sustainability, the fiscal deficit should decline to below 4 percent of GDP in the medium term.

Structural reforms: Work on tax policy reform and debt and investment management continues. To increase trend growth, it is important to pursue further broad-based structural reforms leading to an improved business climate, better governance, and effective energy and financial sectors.

Risks: Persistent electricity supply problems, increasing food and oil prices, a weak global recovery, opportunistic pre-election changes in economic policies, and a lack of medium-term fiscal consolidation are the main risks.

I. Maintaining Macroeconomic Stability

1. **The economic recovery is continuing and has been largely unaffected by the political crisis in Côte d'Ivoire** (Table 1, Figure 2).

- *Growth*. The economic recovery gained momentum in 2010, with real GDP growth reaching 4.2 percent. Growth is projected to reach 4.5 percent in 2011, supported by emergency energy sector reform, and the construction and chemical sectors.

- *Inflation*. During 2010 inflation remained subdued. Year-on-year inflation, however, picked up in the second half of the year, driven by higher food and fuel prices. It is projected to reach 3.8 percent (annual average) in 2011, before declining to its long-term trend.

- *Fiscal balance*. Lower-than-projected oil-related revenues, mostly related to the national electricity company's (SENELEC) financial strains, and a shortfall in donor support, led to an overall fiscal deficit of 5.2 percent of GDP, 0.4 percentage points higher than projected.

- *Balance of payments*. The 2010 current account deficit was revised from 8.2 percent of GDP to 5.9 percent of GDP, reflecting strong export performance and lower-than-projected imports of oil and food.

2. **Uncertainties about the short-term outlook persist.** The main risks include the deeply rooted problems in the energy sector, high food and fuel prices, opportunistic pre-election shifts in economic policies, and a lack of medium-term fiscal consolidation. On the upside, a stronger-than-expected global recovery and fast progress with energy sector reforms could accelerate growth.

II. Program Performance

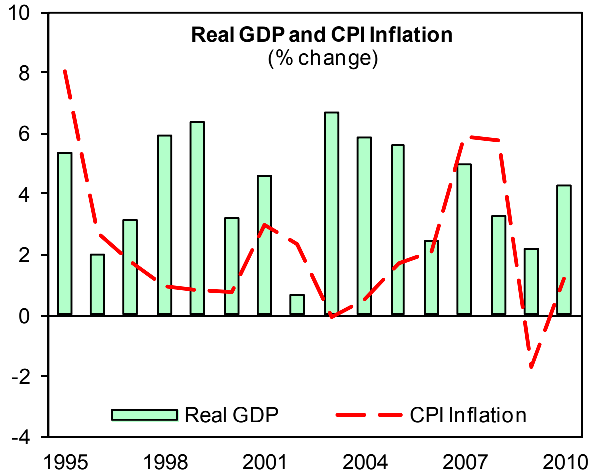
3. **Program performance to date has been broadly satisfactory.** The end-December 2010 program target for the basic fiscal balance was missed by a small margin (0.2 percent of GDP) because of a shortfall in oil-related revenues (Table 7). By early May 2011, the authorities implemented all six measures covered by structural benchmarks for this review, despite small delays with two of them (Text Table 1).

III. Policy Discussions

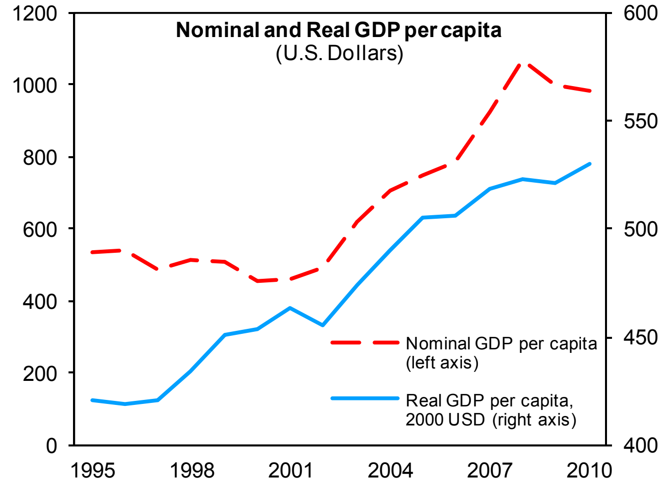
4. **Policy discussions focused on the economic implications of two new developments since the program was approved in December 2010**: (i) the recently completed restructuring plan for the energy sector and (ii) higher international food and fuel prices.

Figure 1. Senegal: Historical Perspective, 1995–2010

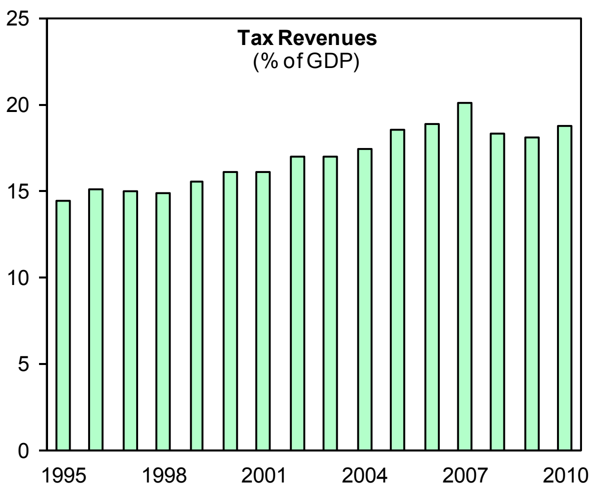
Although growth has been volatile and was affected by the global financial crisis, ...



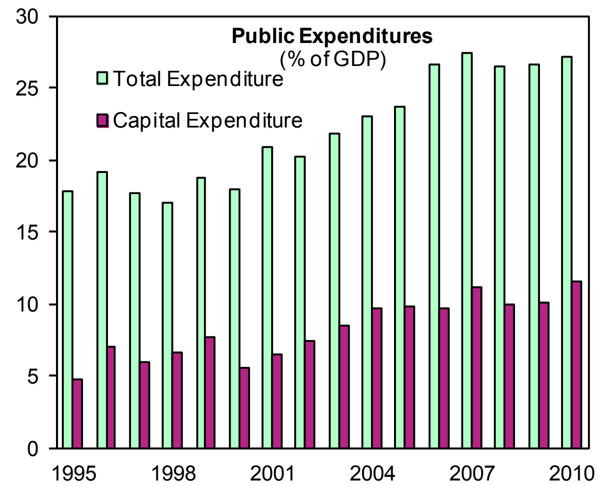
...per capita income has risen steadily.



Revenues are improving again ...



... allowing for higher spending, including capital spending.



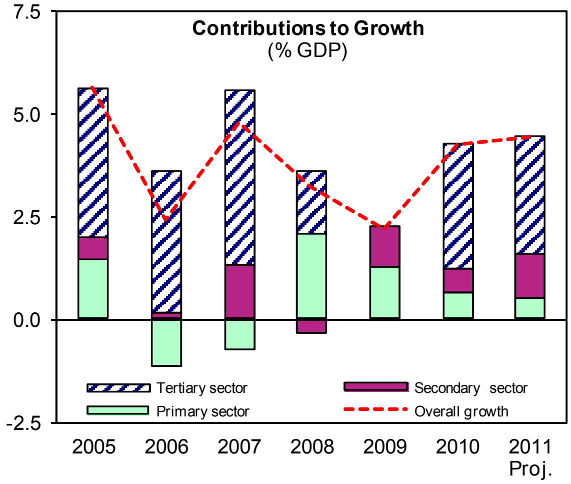
Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2009
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	66	54	44	34	..
Literacy rate, youth female (% of females ages 15-24)	28	..	41	45	..
Total enrollment, primary (% net)	45	50	58	72	75
Ratio of female to male primary enrollment (%)	72	76	86	96	102
Mortality rate, infant (per 1,000 live births)	73	68	61	55	51
Mortality rate, under-5 (per 1,000)	151	138	120	104	93
Births attended by skilled health staff (% of total)	..	47	60	52	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.4	0.8	1
Improved water source (% of population with access)	61	63	65	68	69

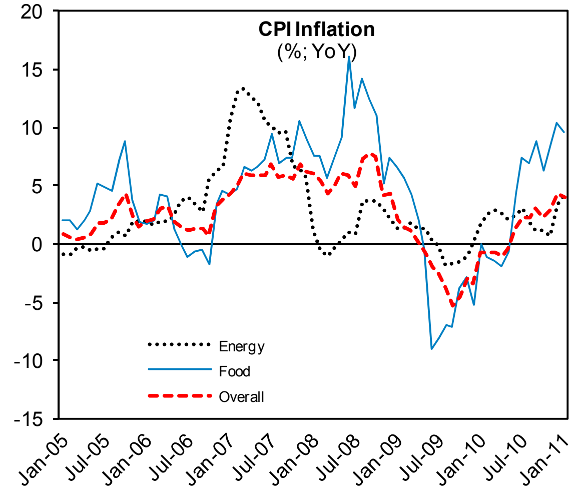
Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

Figure 2. Senegal: Recent Macroeconomic Developments, 2005–2011

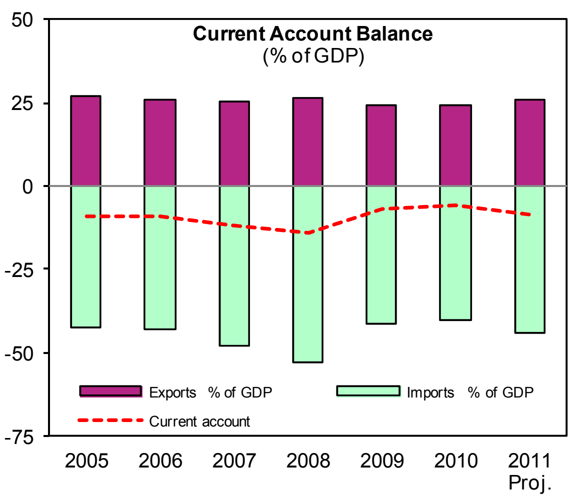
Economic growth has started to recover.



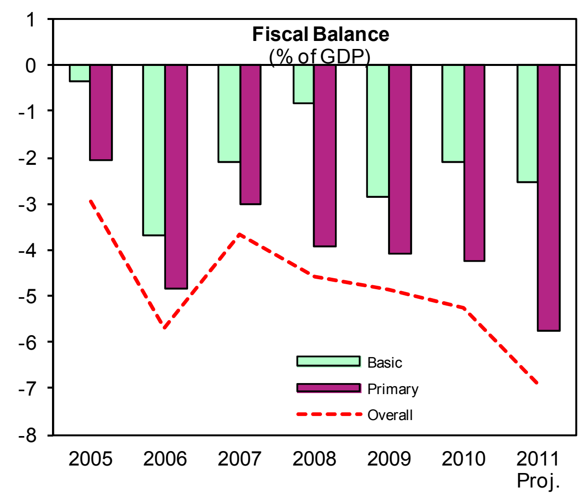
Since late 2010, inflation increased due to higher food and fuel prices.



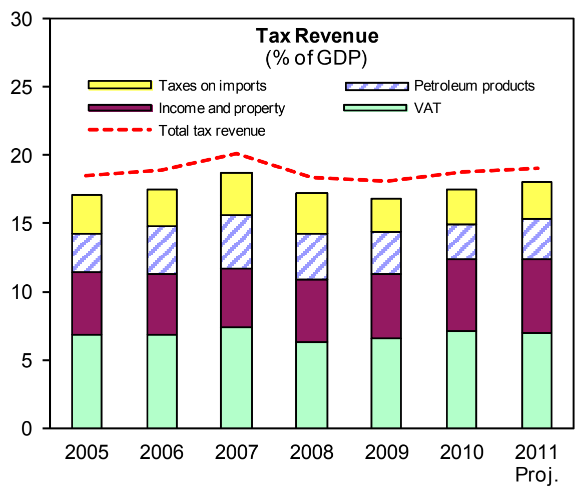
The current account deficit may widen in 2011.



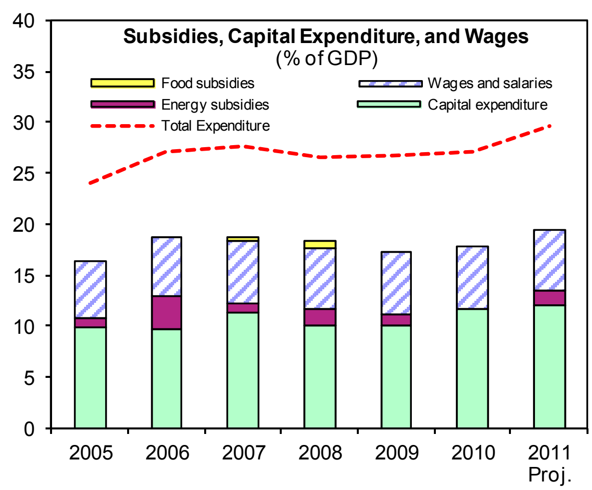
Fiscal policy has been eased to cushion the impact of the global crisis and higher investment spending



Tax collection is recovering…



…supporting more investment spending.



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

Text Table 1. Structural Measures: First PSI Review

Measures	MEFP EBS/10/208 §	Implementation Date	Macroeconomic Significance	Status
Prepare a restructuring and revitalization plan for the energy sector, taking into account the results of the financial and operational audits.	25	January 31, 2011	Strengthen the efficiency of the energy sector and transparency of public finances.	Met. Emergency plan for electricity adopted.
Issue a decree on the powers, composition, and operating procedures of the committee monitoring budget execution.	14	January 31, 2011	Improve cash flow management.	Met
Prepare an action plan to achieve realistic budgeting for, and regular payment of, utilities by all ministries.	20	February 28, 2011	Strengthen transparency and credibility of the budget.	Met
Submit a tax policy reform strategy to the Council of Ministers.	15	March 31, 2011	Improve tax policy and increase revenues.	Met with delay. Submitted in mid-April.
Create a new entity, through regulation, responsible for managing domestic and external debt and market interventions.	13	April 15, 2011	Improve debt management.	Met.
Publish monthly on the government's website complete information on the extension of the highway, including (i) project status; (ii) planning and execution; (iii) financing and costs; and (iv) account balance, within two weeks following the end of the month, starting March 2011.	11	March 31, 2011	Increase transparency in infrastructure investment.	Met with delay. First publication in April

A. Safeguarding Fiscal Space

MEFP¶¶12, 43-45

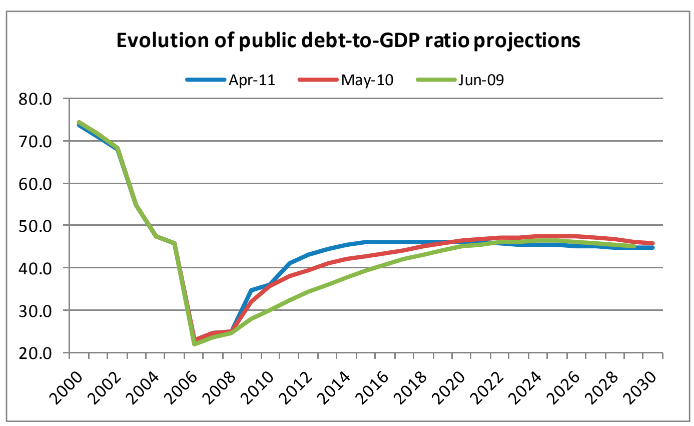
5. **With new investment needs in the energy sector (see Box 1), fiscal policy faces a difficult trade-off between additional priority expenditure and the need to preserve debt sustainability.** To finance the restructuring of the energy sector and new investments (totaling more than 3 percent of GDP in 2011), the authorities established an energy sector support fund (FSE) in February, partly financed by new taxes and levies, and decided to reprioritize less urgent expenditure. With limited risk of overheating and a low risk of debt distress (see updated joint IMF/IDA debt sustainability analysis), the authorities and staff agreed that there is also some scope for higher fiscal deficits in the short term. At the same

time, quickly rising debt levels during the past few years and medium-term debt sustainability considerations call for prudence. The authorities and staff agreed that the 2011 fiscal deficit should stay below 7 percent of GDP (Text Table 2), with an adjustor of up to 1 percent of GDP if additional concessional financing materializes. To preserve debt sustainability, the overall fiscal deficit should be reduced to below 4 percent of GDP in the medium term (Figure 3).

Text Table 2. Government Financial Operations, 2011-13 (Percent of GDP)

	2011	2012	2013	2011	2012	2013
	Prog. proj. Dec. 2010			Revised projections		
Total revenue and grants	22.2	22.4	22.6	22.8	22.7	22.7
of which FSE	…	…	…	0.5	0.4	0.3
Total expenditure and net lending	28.0	27.7	26.5	29.7	28.3	27.3
investment in autoroute	1.4	1.6	0.2	0.4	1.0	0.2
energy sector projects	0.0	0.0	0.0	3.1	2.0	2.0
tariff gap	0.0	0.0	0.0	0.7	0.5	0.4
leasing	0.0	0.0	0.0	0.4	0.3	0.0
investment by FSE	0.0	0.0	0.0	0.0	0.3	0.3
recapitalization of SENELEC	0.0	0.0	0.0	0.6	0.0	0.0
other investment	0.0	0.0	0.0	1.5	0.9	1.4
other expenditure	26.6	26.1	26.3	26.1	25.2	25.1
Overall fiscal balance	-5.8	-5.3	-3.9	-6.9	-5.6	-4.6
Memorandum (in CFA billion)						
nonconcessional financing for the autoroute	92	117	15	30	77	15
nonconcessional financing for the energy sector	0	0	0	62	40	0

6. **Staff emphasized that a prudent approach to borrowing is needed.** The policy support instrument (PSI) already includes a ceiling for the contracting or guaranteeing of new nonconcessional external financing of US$500 million over three years, tied to the highway extension. While this ceiling will be maintained, staff and the authorities agreed that part of these resources could be used for profitable investments in the energy sector because of the urgency and high economic profitability of these investments. The authorities plan to rephase the highway extension project and to consider alternative financing options for part of the project, including a public-private partnership, introducing some financing uncertainty. The authorities issued a US$500 million Eurobond in early May. Large acceptance of the offer to holders of the existing US$200 million bond maturing in 2014 for an exchange[1] has reduced roll-over risk in the medium-term, while shifting it to 2021, but debt servicing risks remain.



[1] The US$500 million 10-year Eurobond was placed on May 6, 2011 with a 8.75 percent coupon (bi-annual frequency), priced to yield 9.125 percent. Over 75 percent of investors holding some US$155 million of the US$200 million 5-year bond issued in 2009 accepted the offer to exchange the existing bond for the new 10-year bond.

Box 1. Energy Sector: Challenges and Reforms

Energy sector as a bottleneck to growth: Capacity constraints, frequent electricity outages, high production costs and electricity tariffs, and poor governance of the energy sector have increasingly constrained economic development. The authorities' analysis suggests that energy supply problems have reduced real GDP growth by more than 1 percent per year during the past two years.

Reform plan: The authorities' reform plan (TAKKAL), includes (i) short-term emergency measures that complement medium-term investments (including recapitalization of the national electricity company SENELEC and renting of additional generating capacity (partly used to allow for the upgrading of existing power plants)); (ii) increasing the electricity supply by changing the production mix, acquiring mobile power units, and accelerating the construction of a coal power plant; (iii) demand management policies; (iv) restructuring of SENELEC to achieve its financial viability; and (v) creating a communication strategy to ensure transparency and good governance of the reform process.

Financing needs: The total cost of energy sector reform for 2011–15 is estimated at some US$ 1.5 billion (more than 10 percent of 2011 GDP). Financing needs in 2011 alone amount to more than 3 percent of GDP. The analysis of a reputable private sector consultancy shows that the investment package is highly profitable.

Plan Takkal: 2011 Financing Needs

	CFA bn	Percent of GDP
Compensation for tariff gap	45	0.7
Recapitalization of SENELEC	43	0.6
Renting power-generating capacity	25	0.4
New investment in electricity generation	102	1.5
Total	215	3.1

Financing modalities: Energy sector reform will be financed by a combination of new revenues, expenditure reallocation, and new borrowing. To finance the short-term emergency measures, in February 2011 the authorities established an Energy Sector Support Fund (FSE). It will be financed by parafiscal levies on domestic sales of petroleum products not used for electricity generation (gas oil, diesel oil, fuel oil); a turnover tax on access to telephone lines; budgetary transfers; donor funds; and other resources allocated to the energy sector. The fund is governed by a board, which includes representatives from the government, the private sector, and consumers. Its accounts will be audited annually.

Risks: Any delay in medium-term investments would increase the cost of emergency measures. Higher international oil prices may increase the tariff gap and involve some budgetary risks. Estimates suggest that a 10 percent increase in international oil prices would lead to an (implicit) subsidy of 0.2–0.3 percent of GDP for SENELEC, if electricity tariffs are not adjusted accordingly. However, oil-related revenues would increase in parallel, largely offsetting overall fiscal risks.

MEFP ¶¶15-16, 45

7. **Staff and the authorities agreed that maintaining fiscal transparency of investment projects is critical for safeguarding the integrity of the financial program**. For program monitoring, the FSE will be integrated in the fiscal accounts, which staff sees as a second best option to a full integration of the FSE in the budget. The nonconcessional financing will be deposited in a special account and

used exclusively for the energy sector and the extension of the autoroute. The government will publish monthly on a dedicated government website full information on the financial activities of the FSE, project status and execution, financial costs, and the special account balance (structural benchmark end-August 2011). Also, the government will conduct an initial audit of the use of the funds earmarked for extension of the highway three months after work starts (structural benchmark end-October 2011).

8. **The authorities took measures to keep food prices under control.** In February 2011, the government froze retail prices for six key food items and temporarily limited price increases for petroleum products at the pump by reducing the VAT base. Drawing on lessons from recent history (Box 2), staff advised against food price controls and generalized tax reductions or subsidies. Staff pointed to the higher efficiency of better-targeted schemes, such as school lunch programs. With limited fiscal space, any measure with budgetary implications will need to be offset by reducing lower-priority spending to maintain the deficit target.

MEFP ¶46

Box 2. Senegal's Food and Oil Subsidies: Lessons from 2007–2008

1. **During the 2007–2008 food and fuel crisis the authorities took several measures to limit food and oil-related price increases**. The fiscal costs of temporary reductions of VAT, excise tax exemptions, and subsidies for butane gas amounted to about 4½ percent of GDP during the 2-year period, with about a third stemming from a loss in revenues. On the other hand, with regard to pump prices**,** the government has traditionally allowed the bulk of the increase in world prices to pass through to consumers.

WAEMU: Regional Comparison of Pump Prices in March 2011
(In CFAF per liter)

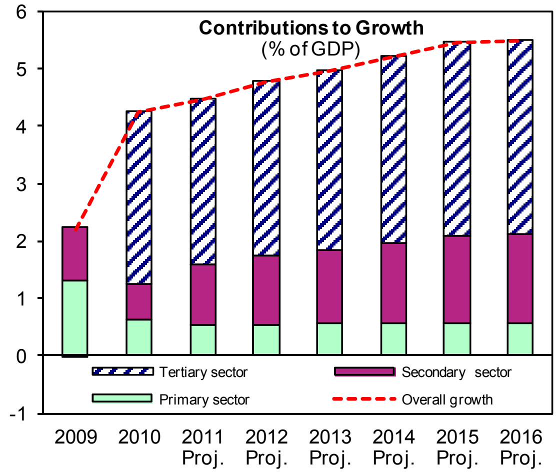
	Gasoline		Diesel	Kerosene
	Regular	Super		
Benin	555	555	555	540
Burkina Faso	…	682	606	460
Guinea-Bissau	732	…	638	563
Mali	695	…	610	510
Niger	…	561	580	416
Senegal	748	783	721	583
Togo	…	540	570	445
WAEMU average	683	624	611	502

Source: IMF based on authorities' data submissions

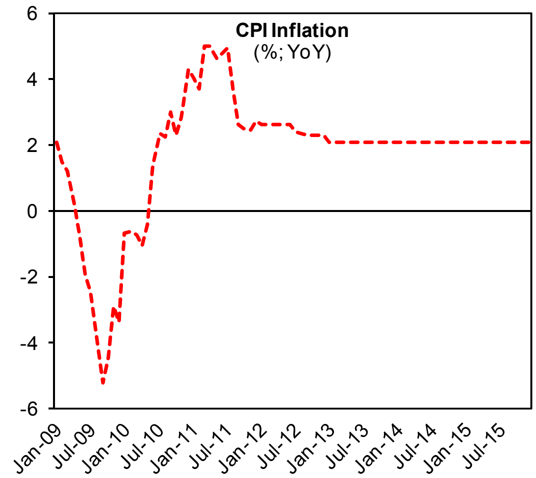
The 2008 poverty and social impact analysis (PSIA) concluded that these measures were in general poorly targeted. Almost 55 percent of the benefits accrued to households in the top 40 percent of the welfare distribution. The PSIA also found that poorer households could be protected against price increases at a lower budgetary cost and more effectively by redirecting resources to better-targeted measures, including: (i) reducing taxes only on the low-grade food subgroups consumed by the poor; (ii) targeting poor groups through measures such as school lunches and public works programs; (iii) directly addressing rural poverty by increasing farm productivity and broadening rural job opportunities; and (iv) better-targeted tariffs for small quantities of electricity could help protect some of the urban poor. In the longer term, a means-tested cash transfer system is the best option for social assistance.

Figure 3. Senegal: Medium-Term Outlook, 2009–16

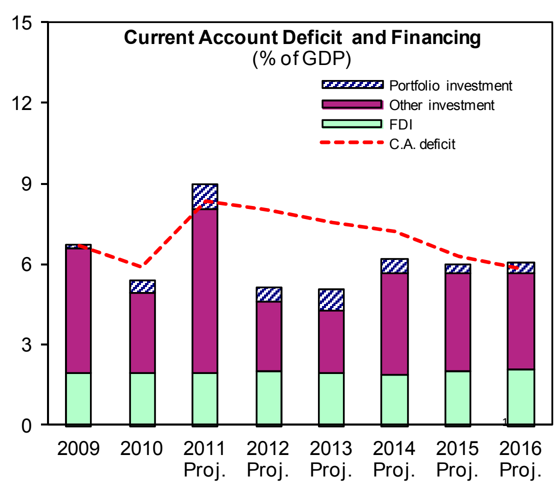
Output growth is projected to be driven by the services sector, and the energy and construction sectors related to large investment projects.



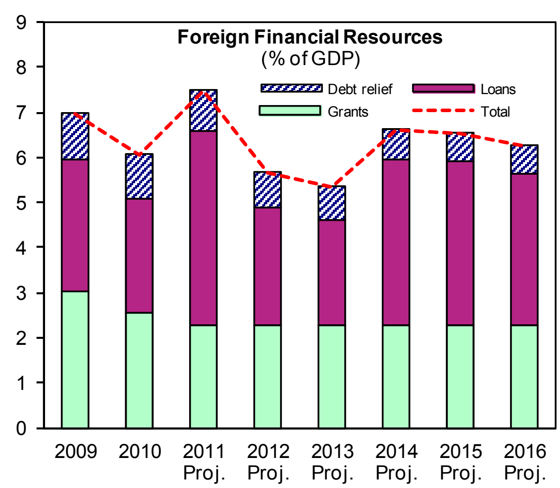
Inflation is projected to return to historical trends in the context of WAEMU membership and in the absence of renewed energy and food price pressures.



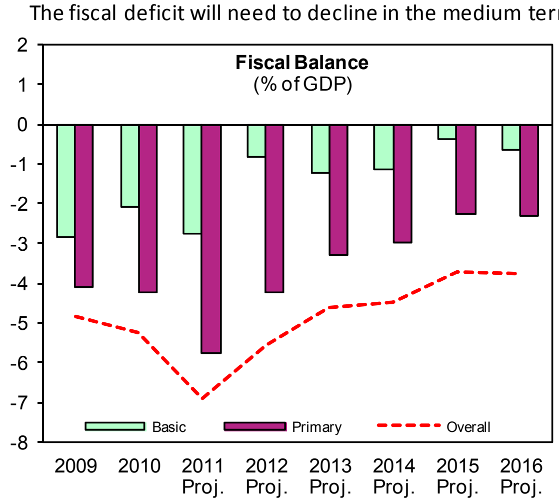
The current account deficit is projected to be financed in part by private flows ...



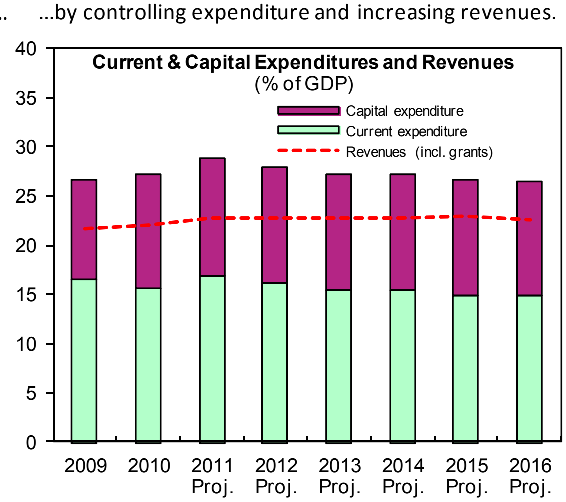
...while the economy will remain dependent on foreign financial resources.



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



...by controlling expenditure and increasing revenues.



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

[1] Includes only private other investment.

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

9. **Reforms in tax policy and tax and customs administration are continuing, aimed at increasing the efficiency of the tax system and raising revenues for more priority spending.**

MEFP ¶¶20-24

- *Tax policy*. Following the submission of the tax policy reform strategy to the Council of Ministers, the authorities now intend to study in more detail the implications of tax policy changes, including the impact of VAT and personal income tax reform (structural benchmark, February 2012) (Text Table 3). The authorities plan to finalize the reform of the General Tax Code by October 2012.

- *Tax and customs administration*. The authorities plan to establish an office in charge of strategy and tax modernization by end-June 2011 and two medium-sized taxpayer offices by end-2011. During 2011, the authorities aim to roll out an updated version of a computerized customs system and enhance anti-tax evasion.

Text Table 3. Structural Measures for Second PSI Review

Measures	MEFP §	Implementation Date	Macroeconomic Significance
Settle the final amounts of extrabudgetary expenditure, and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit.	28	June 30, 2011	Strengthen public financial management and fully normalize financial relations with the private sector.
Finalize legislation supporting leasing activities.	34	June 30, 2011	Improve the efficiency of the financial sector.
Formulate a strategy and timetable for establishment of a single treasury account.	19	September 30, 2011	Strengthen public financial management.
Create the organizational chart and procedures for the entity responsible for managing the domestic and external public debt portfolio and market interventions.	18	September 30, 2011	Improve debt management.
Publish monthly on a dedicated government website within two weeks following the end of the month, full information on: (i) the Energy Sector Support Fund (FSE); (ii) project status; (iii) planning and execution; (iv) status of financing and costs; and (v) special account balance.	16	August 31, 2011	Increase transparency in infrastructure investment.
Conduct an initial audit of the use of the funds earmarked for extension of the highway three months after work starts, and publish the report on the government's website.	15	October 31, 2011	Improve the transparency of infrastructure-related investments.

10. **Reforms of public financial management (PFM) continue, but weaknesses persist.**

MEFP ¶¶25-30

- *Settlement of extrabudgetary expenditures*. Regularization of remaining extrabudgetary spending has progressed well. The remaining amounts from 2008 (less than 0.1 percent of GDP) will be cleared by mid-2011. The authorities will publish a press release, summarizing the outcome (structural benchmark, end-June 2011).

- *Investment planning*. The authorities are preparing guidelines for project assessment. To align better the timetable with technical assistance, preparation of the guidelines will take somewhat longer than intended (revised structural benchmark, end-December 2011).

- *Treasury management*. Sizeable budgetary reallocations early in the year point to continued weaknesses in PFM[2]. The establishment of an expenditure execution committee in January 2011 should help address these issues. The authorities plan to formulate a strategy for establishing a single treasury account (structural benchmark, end-September 2011).

11. **The authorities are moving forward with plans to improve debt management.** A new debt management unit should be operating in early 2012. In the meantime, the authorities are working on organizational charts and debt management manuals. The authorities intend to prepare a medium-term debt management strategy (structural benchmark, June 2012). A recent MDTS TA mission provided initial technical assistance in this area, with envisaged follow-up TA.

MEFP ¶18

C. Promoting the Private Sector and Good Governance

12. **The authorities made some progress in implementing reforms of the financial sector.** The law governing leasing activities is being finalized (structural benchmark, end-June 2011). The government will prepare a study on ways to rationalize supervision in the microfinance sector (structural benchmark, end-January 2012).

MEFP¶¶34- 38

13. **The impact of the crisis in Côte d'Ivoire on the Senegalese financial sector has so far been contained, but nonperforming loans (NPLs) remain high** (Text Table 4, Figure 4).

Text Table 4. Number of Banks Noncompliant with Prudential Standards

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Jan-11
Minimum capital 1/	2	1	1	1	1	1	0	2	1
Capital adequacy 2/	2	2	2	2	2	2	2	2	1
Large exposures and concentration 3/	2	6	6	8	5	6	8	6	3
Liquidity 4/	1	3	1	4	4	4	4	5	4
Transformation (stable resources) 5/	5	3	4	3	4	6	6	6	…
Number of Banks	11	11	12	14	17	17	17	17	18

Source: BCEAO and BC-WAMU

1/ Capital equity > CFAF 1 billion up to 2010; Capital equity > CFAF 5 billion as per end-2010.

2/ Regulatory capital/risk-weighted assets >8 percent.

3/ (i) Loans to a single borrower/regulatory capital < 75 percent; (ii) Sum of all risks reaching 25 percent of regulatory capital < 8 times regulatory capital.

4/ Assets with residual term of less than 3 months/liabilities with residual term of less than 3 months > 75 percent.

5/ Resources with residual term of more than 2 years/assets with residual term of more than two years > 75 percent.

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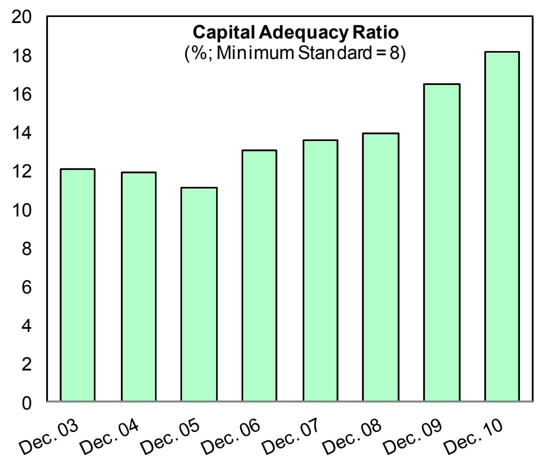
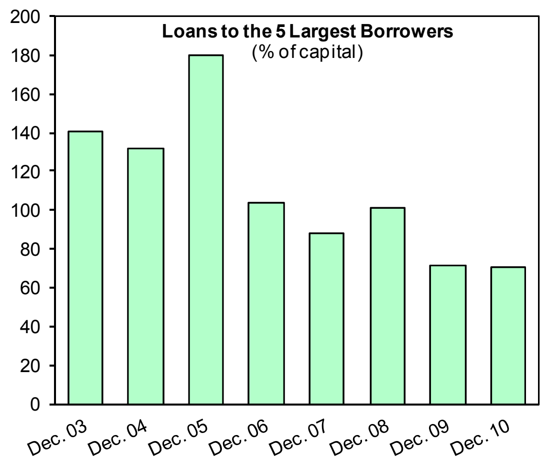
[2] In early 2011, the government had to cancel some 2011 budget-approved expenditures. In late 2010, the government had enabled a special entity (which is not part of the definition of the program deficit target) responsible for a world festival of black arts to access short-term bank loans of 0.3 percent of GDP. The loans ensured a smooth realization of the festival, as part of the funds pledged by other participating countries had not been received. The inclusion of a transfer allocation in the 2011 supplementary budget, financed by a reallocation of expenditure, will provide ex-post transparency to this expenditure by subjecting it to parliamentary scrutiny and including it in the 2011 deficit target.

Figure 4. Senegal: Financial Sector Issues

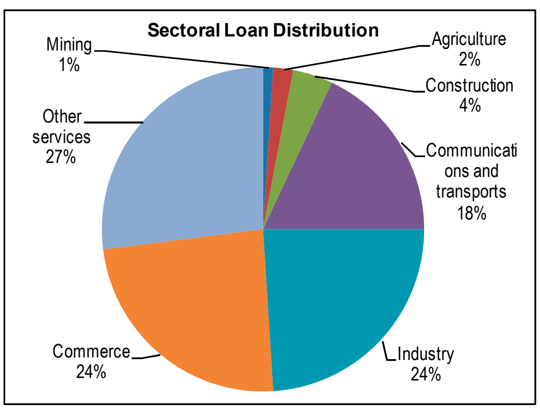
Overall, the banking sector is robustly capitalized...



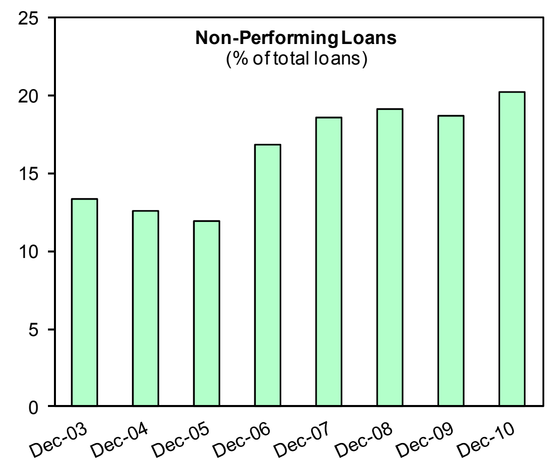
... but loan concentration remains relatively high.



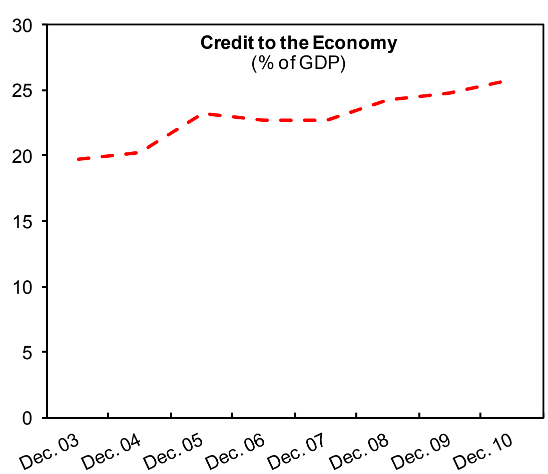
Loans are concentrated in a few sectors.



Non-performing loans have increased.



The gradual deepening of the banking market...



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

Access to Credit [1]

	Senegal	Mauritius	Morocco
Rank *(out of 183)*	152	89	89
Strength of Legal Rights Index *(0-10)*	3	5	3
Credit Information Index *(0-6)*	1	3	5
Borrowers Covered by Public Registery *(% of adults)*	0.4	49.8	0.0
Borrowers Covered by Private Registery *(% of adults)*	0.0	0.0	9.9

Source: Senegalese authorities and IMF staff calculations and estimates
[1] Source: Doing Business 2011

Concerns about liquidity and solvency risks were effectively addressed by the decision to roll over maturing government paper of Côte d'Ivoire.

MEFP ¶¶39–40

14. **Progress in improving the business climate and economic governance was mixed**. The authorities are working on addressing shortcomings of revisions to the procurement code. Other priority reforms include improving the business climate and further modernization of the legal and operational framework for land and property transactions, where progress has been limited. As the authorities work on improving their anti-money laundering and combating the financing of terrorism (AML/CFT) regime, they are encouraged to implement the recommendations made in the Intergovernmental action group against money laundering in West Africa's (GIABA) 2008 AML/CFT Mutual Evaluation Report, while remaining in compliance with their regional obligations under the UEMOA Directive.

IV. Program Monitoring

MEFP ¶¶45. 47

15. **Because of increasing focus on debt sustainability, staff has proposed to switch to an overall fiscal deficit target from a basic fiscal balance target (**which excludes foreign-financed expenditure), thus proposing a modification of one assessment criterion. For program monitoring purposes, the FSE will be consolidated in the fiscal accounts of the government. To account for uncertainties related to the speed of energy sector reform and the availability of concessional financing, the target on the overall fiscal deficit will be adjusted upward for higher-than-programmed concessional project loans up to a ceiling of CFAF 70 bn (1 percent of GDP) and for a shortfall in program grants up to a ceiling of CFAF 15 bn (0.2 percent of GDP).

MEFP ¶47

16. **For program purposes, the definition of external debt is changed from a residency- to a currency-based criterion** to facilitate monitoring and to harmonize definitions across WAEMU countries.[3] For nonconcessional financing the program maintains a three-year envelop of US$500 million, currently tied to the autoroute extension, but which can also be used for investments in the energy sector, consistent with debt sustainability, the profitability of projects, and absorptive capacity.

V. Staff Appraisal

17. **The recovery continues but downside risks persist.** Growth is projected to increase to 4½ percent. However, the recovery remains fragile, with the main risks stemming from a continuation of electricity supply problems, high food and fuel prices, and potential backtracking on previous achievements in the run-up to elections. On the upside, a faster global recovery, good progress with energy sector reform, and continued structural reforms could support growth.

18. **Fiscal policy needs to strike a delicate balance between priority expenditure and maintaining debt sustainability**. Sizeable investment needs in the energy sector will require

[3] Staff will monitor the contracting of new CFAF denominated debt with entities that have ultimate ownership outside the CFAF zone to ensure that the currency-based definition of external debt does not become an avenue to circumvent other program limits, in particular the program's concessionality limits.

difficult budgetary trade-offs. As the space for higher fiscal deficits to accommodate such spending is limited, a substantial contribution will need to come from additional revenue measures and reprioritizing expenditure. While the creation of an energy fund (FSE) outside the budget does not reflect international best practice, integration in program monitoring will support transparency. To maintain debt sustainability, the fiscal deficit needs to be reduced to below 4 percent of GDP in the medium term. Moreover, the policy response to rising food and fuel prices should focus on well-targeted measures.

19. **A prudent approach to borrowing is needed to finance infrastructure investment**. Accessing international markets should be accompanied by improving debt management, including the setting up of a debt management unit and preparing a medium-term debt management strategy. While the exchange of the US$200 million bond has reduced roll-over risk in the medium term, the pattern of debt service (both in terms of exports and fiscal revenue) points to continued rollover risks, including when the Eurobond will mature in ten years.

20. **Further progress is needed in PFM.** Spending reallocations very early in the year point to continued weaknesses in PFM. To strengthen transparency, budget credibility, and the quality of spending, all energy sector–related revenues, expenditure, and financing should be transparently reported, fully reflected in the macroeconomic framework, and included in the program target for the overall fiscal deficit. The execution of investments, including in energy, should be based on sound profitability assessments.

21. **To sustain the growth momentum, structural reform implementation should be accelerated.** On tax policy, the authorities are encouraged to integrate all relevant measures in a comprehensive reform package and to refrain from a piecemeal approach. Fast implementation of financial sector reform is essential to improving the institutional, legal, and operational environment to increase the sector's contribution to growth. To increase trend growth, the authorities should also pursue other broad-based structural reforms leading to an improved business climate and better governance.

22. **Staff recommends completion of the first review under the PSI and proposes to grant a waiver for nonobservance of the assessment criterion on the basic fiscal balance because of a small margin and a corrective action taken**. The authorities have embarked on a comprehensive reform of the energy sector, which should help avoid further slippages in the collection of oil-related revenue. Staff also recommends modifying the fiscal AC by switching from the basic fiscal balance to an overall fiscal deficit target.

PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to paragraph 8 of Decision No. 13561-(05/85), 10/05/05, as amended, and paragraph 1(a) of the Policy Support Instrument ("PSI") for Senegal (EBS/10/208, 11/15/10), the Fund has conducted a review to assess program implementation.

2. The letter dated May 19, 2011 from the Minister of State and the Minister of Economy and Finance (the "May 2011 Letter"), together with its attached Memorandum of Economic and Financial Policies (the "May 2011 MEFP") and the Technical Memorandum of Understanding (the "May 2011 TMU"), shall be attached to the PSI for Senegal, and the letter from the Minister of State and the Minister of Economy and Finance dated November 10, 2010, together with its attachments, shall be read as supplemented and modified by the May 2011 Letter and its attachments.

3. Accordingly, the PSI for Senegal shall be modified as follows:

a. In paragraph 2.A(1) of the PSI for Senegal, "MEFP" shall be replaced by "May 2011 MEFP" and "TMU" shall be replaced by "May 2011 TMU".

b. Paragraph 2.C shall be amended to read as follows:

"with respect to the second review:

(1) The data as of June 30, 2011 indicate that:

(i) the floor on the overall fiscal balance, or

(ii) the ceiling on the amount of the float (instances de paiements) at the Treasury,

as specified in Table 1 of the May 2011 MEFP and further specified in the May 2011 TMU, was not observed."

c. Paragraph 2.D shall be amended to replace "paragraph 2.B(1)(i) and (ii)" with "paragraph 2.C(1)(i) and (ii)", "MEFP" shall be replaced with "May 2011 MEFP", and "TMU" shall be replaced with "May 2011 TMU".

4. The Fund

a. waives the nonobservance of the quantitative assessment criterion on the basic fiscal balance set out in paragraph 2.B(2)(i) of the PSI for Senegal, and

b. completes the first review specified in paragraph 1(a) of the PSI for Senegal, on the condition that the information provided by Senegal (i) on its performance under the nonobserved assessment criterion, (ii) on its performance under other assessment criteria related to this review, and (iii) on the implementation of the measure specified as a prior action in Table 2 of the May 2011 MEFP, is accurate.

Table 1. Senegal: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010		2011	2012	2013	2014	2015	2016
			Prog.	Est.	Proj.					
	(Annual percentage change)									
National income and prices										
GDP at constant prices	3.2	2.2	4.0	4.2	4.5	4.8	5.0	5.2	5.5	5.5
Of which: nonagriculture GDP	1.4	1.2	4.0	4.3	4.5	4.8	5.0	5.3	5.5	5.6
GDP deflator	6.6	-0.9	1.4	1.3	3.0	2.4	2.2	2.2	2.0	2.0
Consumer prices										
Annual average	5.8	-1.7	1.2	1.2	3.8	2.5	2.1	2.1	2.1	2.1
End of period	4.3	-3.4	4.3	4.3	2.7	2.3	2.1	2.1	2.1	2.1
External sector										
Exports, f.o.b. (CFA francs)	23.0	0.2	9.9	5.7	17.6	6.3	6.5	7.3	8.0	8.2
Imports, f.o.b. (CFA francs)	25.8	-22.4	6.3	2.1	21.9	5.1	3.8	5.7	6.2	7.4
Export volume	-12.0	29.2	6.3	4.3	7.4	5.8	5.8	6.2	6.2	6.2
Import volume	18.7	-2.6	4.6	-0.4	6.7	5.8	4.8	4.6	4.5	5.2
Terms of trade ("–" = deterioration)	16.1	9.8	2.0	-0.5	-7.8	1.4	2.7	0.6	0.6	-0.2
Nominal effective exchange rate	2.9	-0.2	…	…	…	…	…	…	…	…
Real effective exchange rate	4.4	-1.7	…	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	6.2	6.1	11.8	8.3	9.1	5.1	8.8	7.5	8.0	8.8
Domestic credit	7.3	6.8	11.0	11.0	11.9	5.7	9.4	8.1	8.6	9.4
Credit to the government (net)	-3.5	4.2	6.4	4.3	5.2	2.8	3.9	1.6	0.6	0.8
Credit to the economy (percentage growth)	17.2	3.6	6.9	10.0	10.3	4.7	9.3	11.0	13.6	14.2
	(Percent of GDP, unless otherwise indicated)									
Government financial operations										
Revenue	19.4	18.6	19.7	19.4	20.4	20.4	20.4	20.6	20.7	20.4
Grants	2.3	3.0	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	26.5	26.7	26.9	27.2	29.7	28.3	27.3	27.2	26.7	26.5
Overall fiscal surplus (+) or deficit (–)										
Payment order basis, excluding grants	-6.9	-7.9	-7.1	-7.8	-9.3	-7.8	-6.9	-6.6	-6.0	-6.1
Payment order basis, including grants	-4.6	-4.8	-4.8	-5.2	-6.9	-5.6	-4.6	-4.4	-3.7	-3.8
Primary fiscal balance 1/	-3.9	-4.1	-3.9	-4.3	-5.7	-4.3	-3.3	-2.9	-2.3	-2.4
Basic fiscal balance 2/	-0.8	-2.9	-1.9	-2.1	-2.5	-0.8	-1.2	-1.0	-0.4	-0.7
Gross domestic investment	34.1	27.9	29.1	29.8	31.0	30.8	31.0	31.1	30.8	31.1
Government	10.0	10.1	10.8	11.6	12.0	11.9	11.8	11.7	11.7	11.5
Nongovernment	24.1	17.8	18.2	18.2	19.0	18.9	19.2	19.4	19.1	19.6
Gross domestic savings	7.6	10.9	9.5	14.1	12.9	13.6	14.8	15.5	15.7	16.2
Government	5.8	5.8	7.0	7.3	6.3	7.7	8.5	8.8	9.4	9.2
Nongovernment	1.8	5.1	2.5	6.8	6.5	5.9	6.3	6.7	6.3	7.0
Gross national savings	20.0	21.2	20.8	23.9	22.7	22.8	23.4	23.7	23.7	24.1
External current account balance										
Including current official transfers	-14.2	-6.7	-8.2	-5.9	-8.2	-8.0	-7.5	-7.4	-7.1	-7.0
Excluding current official transfers	-15.2	-7.5	-9.1	-6.5	-9.2	-8.9	-8.4	-8.2	-8.0	-7.8
Central government domestic debt 3/	5.3	7.6	8.4	8.4	10.3	10.9	12.0	12.0	11.5	11.2
External public debt (nominal) 3/ 4/	19.7	27.0	31.6	27.5	30.8	32.1	32.4	33.5	34.5	35.0
External public debt service 4/										
Percent of exports	4.3	5.0	4.8	5.9	10.6	7.3	7.0	7.0	6.3	6.1
Percent of government revenue	5.9	6.5	6.0	7.4	13.5	9.2	8.7	8.6	7.6	7.5
Gross domestic product (CFAF billions)	5,950	6,023	6,350	6,360	6,839	7,338	7,874	8,468	9,111	9,807

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

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC and MDRI spending, and 2010 clearing of extrabudgetary spending and agency debt.

3/ Debt outstanding at year-end.

4/ After HIPC and MDRI (from 2006) debt relief.

Table 2. Senegal: Balance of Payments, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Act.	Act.			Proj.			
	(CFAF billions, unless otherwise indicated)								
Current account	-844	-403	-374	-564	-589	-594	-627	-649	-685
Balance on goods	-1,523	-958	-941	-1,192	-1,239	-1,251	-1,300	-1,353	-1,440
Exports, f.o.b.	988	990	1,047	1,231	1,308	1,394	1,496	1,616	1,748
Imports, f.o.b.	-2,510	-1,948	-1,988	-2,423	-2,547	-2,644	-2,796	-2,969	-3,188
Services and incomes (net)	-76	-141	-136	-131	-118	-121	-134	-143	-153
Credits	709	563	577	654	691	707	742	784	827
Debits	-784	-704	-714	-785	-809	-828	-877	-927	-980
Of which: interest on public debt	-17	-27	-30	-51	-62	-61	-68	-72	-79
Unrequited current transfers (net)	754	695	704	759	769	778	808	847	908
Private (net) 1/	722	672	689	719	731	735	760	795	852
Public (net)	33	23	15	40	38	43	48	51	55
Of which: budgetary grants	38	46	22	37	32	34	37	40	43
Capital and financial account	738	554	495	698	675	629	724	693	750
Capital account	111	146	149	154	223	233	234	176	189
Private capital transfers	8	8	8	9	9	9	9	9	10
Project grants	101	136	140	125	134	144	155	167	179
Debt cancellation and other transfers 2/	2	2	0	20	80	80	70	0	0
Financial account	627	408	346	544	452	396	490	517	561
Direct investment	122	119	127	135	150	157	161	186	205
Portfolio investment	21	8	33	60	43	61	56	46	52
Other investment	485	281	186	349	258	179	273	286	305
Public sector (net)	208	305	136	343	223	171	271	288	308
Of which : disbursements	264	343	190	503	315	265	363	360	377
program loans	70	55	30	38	35	37	40	43	47
project loans	192	107	160	189	203	227	258	271	282
other	2	181	0	275	76	0	65	46	49
Of which : SDR allocation	0	95	0	0	0	0	0	0	0
amortization	-44	-50	-53	-160	-92	-94	-91	-72	-70
Private sector (net)	279	-24	50	6	36	8	2	-3	-3
Errors and omissions	-2	0	0	0	0	0	0	0	0
Overall balance	-105	151	121	133	86	35	97	44	65
Financing	105	-151	-121	-133	-86	-35	-97	-44	-65
Net foreign assets (BCEAO)	-8	-147	-19	-168	-122	-40	-102	-48	-69
Net use of Fund resources	17	47	24	-2	-3	-3	-9	-19	-20
Purchases/disbursements	17	47	24	0	0	0	0	0	0
Repurchases/repayments	0	0	0	-2	-3	-3	-9	-19	-20
Other	-25	-194	-43	-167	-119	-38	-93	-30	-49
Deposit money banks	98	-24	-120	18	18	-12	-13	-14	-14
Exceptional financing (debt relief)	16	20	19	17	18	18	18	18	19
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-14.2	-6.7	-5.9	-8.2	-8.0	-7.5	-7.4	-7.1	-7.0
Excluding current official transfers (percent of GDP)	-15.2	-7.5	-6.5	-9.2	-8.9	-8.4	-8.2	-8.0	-7.8
Gross official reserves (imputed reserves, billions of US$)	1.5	2.1	2.1	2.4	2.6	2.7	2.9	2.9	3.0
(percent of broad money)	37.1	43.2	39.7	40.3	40.5	37.8	36.6	34.2	31.9
WAEMU gross official reserves (billions of US$)	10.5	13.9	13.0	…	…	…	…	… …	
(percent of broad money)	48.8	58.4	51.8	…	…	…	…	… …	
(months of WAEMU imports of GNFS)	5.6	7.1	6.7	…	…	…	…	… …	
Gross domestic product	5,950	6,023	6,360	6,839	7,338	7,874	8,468	9,111	9,807

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

1/ Upwardly revised from 2008 based on a new survey of workers' remittances.

2/ Includes receipts from sale of a telecom license in 2007 and MCA grants during 2011–15.

Table 3. Senegal: Government Financial Operations, 2008–16

	2008	2009	2010		2011		2012	2013	2014	2015	2016
			Prog.	Act.	EBS/ 10/208	Prog.			Proj.		
	(Billions of CFA francs, unless otherwise indicated)										
Total revenue and grants	1,293	1,305	1,403	1,398	1,500	1,558	1,664	1,785	1,932	2,094	2,221
Revenue	1,153	1,123	1,253	1,237	1,345	1,396	1,498	1,607	1,740	1,888	1,999
Tax revenue	1,088	1,086	1,210	1,195	1,299	1,318	1,422	1,528	1,657	1,799	1,935
Income tax	273	288	326	339	347	365	398	436	478	525	568
Taxes on goods and services	616	615	705	693	758	753	807	863	931	1,007	1,084
Taxes on petroleum products	199	182	180	162	194	200	216	229	247	267	283
Nontax revenue	65	37	43	42	45	45	48	52	56	60	64
FSE						33	28	27	28	29	0
Grants	140	182	150	162	155	162	166	178	192	206	222
Budgetary	38	46	33	22	30	37	32	34	37	40	43
Budgeted development projects	101	136	117	140	125	125	134	144	155	167	179
Total expenditure and net lending	1,579	1,607	1,705	1,729	1,892	2,032	2,074	2,150	2,301	2,435	2,596
Current expenditure	979	997	1,011	995	1,086	1,159	1,189	1,220	1,310	1,370	1,464
Wages and salaries 1/	348	364	397	392	416	416	448	472	508	547	588
Interest due	39	45	61	60	82	85	102	109	125	135	144
Of which : external 2/	24	23	41	38	48	51	62	61	68	72	79
Other current expenditure	593	587	554	543	588	658	640	640	677	688	731
Transfers and subsidies 3/	333	286	250	240	238	283	249	247	261	246	263
Of which : SAR and butane subsidy	69	33	13	0	15	15	4	0	0	0	0
Of which: SENELEC/energy	30	30	0	0	31	76	40	30	30	0	0
Of which: Food subsidies	46	0	0	0	0	0	0	0	0	0	0
Goods and services	239	292	291	290	337	363	379	380	404	430	456
HIPC and MDRI current spending	21	9	12	12	12	12	12	12	12	12	12
Capital expenditure 4/	595	607	687	736	799	823	870	929	992	1,066	1,132
Domestically and nonconcessionally financed	314	369	424	437	518	520	559	571	593	634	687
HIPC and MDRI-financed	63	60	49	47	49	49	48	47	48	50	52
Non-HIPC/MDRI financed	251	309	375	390	470	471	511	524	545	584	635
Externally (concessionally) financed	281	237	263	299	281	303	311	359	399	432	445
Net lending	5	3	8	-2	8	51	14	0	0	0	0
Of which : On-lending	12	6	10	1	11	54	26	13	14	15	16
Selected public sector entities balance 5/	13	9	0	-3	0	0	0	0	0	0	0
Basic fiscal balance 6/	-50	-172	-119	-133	-96	-173	-62	-98	-89	-39	-72
Primary fiscal balance	-235	-247	-247	-270	-316	-393	-312	-261	-248	-211	-235
Overall fiscal balance (excluding grants)	-413	-474	-453	-495	-548	-636	-576	-543	-561	-548	-597
Overall fiscal balance (including grants)	-273	-292	-303	-334	-393	-474	-410	-365	-369	-342	-375
Financing	273	292	303	334	393	474	410	365	369	342	375
External financing	225	224	172	173	277	341	329	241	311	319	342
Drawings	262	163	186	190	200	227	238	265	298	314	328
Program loans	70	55	30	30	34	38	35	37	40	43	47
Project loans	192	107	156	160	167	189	203	227	258	271	282
Nonconcessional loans	0	88	0	0	100	206	135	11	65	46	49
Amortization due	-44	-50	-53	-53	-89	-160	-92	-94	-91	-72	-70
T-bills and bonds issued in WAEMU (net)	-9	4	21	18	48	50	30	42	22	13	16
Debt relief and HIPC Initiative assistance	16	20	18	19	17	17	18	18	18	18	19
Domestic financing	124	157	145	172	121	138	81	124	58	23	33
Banking system 7/	-46	116	142	172	116	133	81	124	58	23	33
Of which : T-bills and bonds (net)	-14	52	63	83	144	149	90	125	65	39	49
Nonbank financing	169	41	3	0	5	5	0	0	0	0	0
Settlement of payment delays 8/	-84	-95	-14	-13	-5	-5	0	0	0	0	0
Errors and omissions	9	6	0	1	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Budgetary float (program definition)	66	45	50	50	50	50	50	50	50	50	50
New issues of government securities	131	147	225	292	323	351	...	...	...	...	...
Priority expenditure (percent of total expenditure) 9/	33	36	37	37	36	35	…	…	…	…	…
Gross domestic product	5,950	6,023	6,350	6,360	6,765	6,839	7,338	7,874	8,468	9,111	9,807

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

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.
2/ From 2006 on, reflects post-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
4/ Includes recapitalization of SENELEC.
5/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).
6/ Total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.
7/ Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.
8/ Within the expenditure chain in 2008–09, and extrabudgetary spending and agency debt in 2009–11.
9/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government Financial Operations, 2008–16

	2008	2009	2010		2011		2012	2013	2014	2015	2016
			Prog.	Act.	EBS/ 10/208	Prog.			Proj.		
	(Percent of GDP)										
Total revenue and grants	21.7	21.7	22.1	22.0	22.2	22.8	22.7	22.7	22.8	23.0	22.6
Revenue	19.4	18.6	19.7	19.4	19.9	20.4	20.4	20.4	20.6	20.7	20.4
Tax revenue	18.3	18.0	19.1	18.8	19.2	19.3	19.4	19.4	19.6	19.7	19.7
Income tax	4.6	4.8	5.1	5.3	5.1	5.3	5.4	5.5	5.6	5.8	5.8
Taxes on goods and services	10.3	10.2	11.1	10.9	11.2	11.0	11.0	11.0	11.0	11.1	11.1
Taxes on petroleum products	3.3	3.0	2.8	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Nontax revenue	1.1	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FSE						0.5	0.4	0.3	0.3	0.3	0.0
Grants	2.3	3.0	2.4	2.5	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	26.5	26.7	26.9	27.2	28.0	29.7	28.3	27.3	27.2	26.7	26.5
Current expenditure	16.5	16.6	15.9	15.6	16.0	16.9	16.2	15.5	15.5	15.0	14.9
Wages and salaries	5.8	6.0	6.2	6.2	6.2	6.1	6.1	6.0	6.0	6.0	6.0
Interest payments 1/	0.6	0.8	1.0	0.9	1.2	1.2	1.4	1.4	1.5	1.5	1.5
Other current expenditure	10.0	9.7	8.7	8.5	8.7	9.6	8.7	8.1	8.0	7.6	7.5
Of which: Goods and services	4.0	4.9	4.6	4.6	5.0	5.3	5.2	4.8	4.8	4.7	4.7
Of which: Transfers and subsidies	5.6	4.7	3.9	3.8	3.5	4.1	3.4	3.1	3.1	2.7	2.7
Of which: Energy and food subsidies	2.4	1.0	0.2	0.0	0.7	1.3	0.6	0.4	0.4	0.0	0.0
HIPC and MDRI current spending	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Capital expenditure 2/	10.0	10.1	10.8	11.6	11.8	12.0	11.9	11.8	11.7	11.7	11.5
Domestically and nonconcessionally financed	5.3	6.1	6.7	6.9	7.7	7.6	7.6	7.2	7.0	7.0	7.0
Externally (concessionally) financed	4.7	3.9	4.1	4.7	4.1	4.4	4.2	4.6	4.7	4.7	4.5
Net lending	0.1	0.1	0.1	0.0	0.1	0.7	0.2	0.0	0.0	0.0	0.0
Selected public sector entities balance 3/	0.2	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic fiscal balance 4/	-0.8	-2.9	-1.9	-2.1	-1.4	-2.5	-0.8	-1.2	-1.0	-0.4	-0.7
Primary fiscal balance	-3.9	-4.1	-3.9	-4.3	-4.7	-5.7	-4.3	-3.3	-2.9	-2.3	-2.4
Overall fiscal balance											
Payment order basis, excluding grants	-6.9	-7.9	-7.1	-7.8	-8.1	-9.3	-7.8	-6.9	-6.6	-6.0	-6.1
Payment order basis, including grants	-4.6	-4.8	-4.8	-5.2	-5.8	-6.9	-5.6	-4.6	-4.4	-3.7	-3.8
Financing	4.6	4.8	4.8	5.2	5.8	6.9	5.6	4.6	4.4	3.7	3.8
External financing	3.8	3.7	2.7	2.7	4.1	5.0	4.5	3.1	3.7	3.5	3.5
Domestic financing	2.1	2.6	2.3	2.7	1.8	2.0	1.1	1.6	0.7	0.3	0.3
Settlement of payment delays 5/	-1.4	-1.6	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.2	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)										
Priority expenditure 6/	8.8	9.5	10.0	10.0	9.4	9.3	...	...	...	...	...
Wages and salaries (percent of revenue)	30.2	32.4	31.7	31.7	30.9	29.8	29.9	29.4	29.2	29.0	29.4

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

1/ From 2006 on, reflects post-MDRI debt service schedule.

2/ Includes SENELEC recapitalization. The government provided CFAF 65 billion in 2007 under domestically financed capital expenditure, while earmarked budget support by the World Bank and France in 2008–10 is being provided under externally financed capital expenditure.
3/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants pension fund (FNR).
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.
5/ Within the expenditure chain in 2008–09 and extrabudgetary spending and agency debt in 2009–11.
6/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 5. Senegal: Monetary Survey, 2007–11

	2007	2008	2009	2010	2011 Proj.
			(CFAF billions)		
Net foreign assets	851	762	859	988	1,139
Central Bank of West African States (BCEAO) 1/	644	653	725	735	903
Commercial banks	207	109	133	253	236
Net domestic assets	1,122	1,245	1,367	1,552	1,784
Net domestic credit	1,324	1,467	1,604	1,848	2,149
Net credit to the government	96	28	112	207	340
Central bank	55	-14	119	203	193
Commercial banks	21	33	-9	0	143
Other institutions	20	9	2	4	4
Credit to the economy	1,228	1,440	1,492	1,641	1,810
Other items (net)	-202	-223	-236	-295	-365
Broad money (M2)	1,973	2,007	2,226	2,540	2,923
Currency outside banks	485	474	495	561	598
Total deposits	1,488	1,532	1,731	1,979	2,325
Demand deposits	784	779	864	988	1,224
Time deposits	705	754	867	991	1,100
	Change in percentage of beginning-of-period broad money stock				
Net foreign assets	4.1	-4.5	4.8	5.8	5.9
BCEAO	4.3	0.4	3.6	0.4	6.6
Commercial banks	-0.2	-5.0	1.2	5.4	-0.7
Net domestic assets	8.6	6.2	6.1	8.3	9.1
Net credit to the government	4.9	-3.5	4.2	4.3	5.2
Credit to the economy	6.7	10.7	2.6	6.7	6.6
Other items (net)	-2.9	-1.0	-0.7	-2.7	-2.7
Broad money (M2)	12.7	1.7	10.9	14.1	15.1
Memorandum items:			(Units indicated)		
Velocity (GDP/M2; end of period)	2.7	3.0	2.7	2.5	2.3
Nominal GDP growth (percentage growth)	10.5	10.0	1.2	5.6	7.5
Credit to the economy (percentage growth)	10.5	17.2	3.6	10.0	10.3
Credit to the economy/GDP (percent)	22.7	24.2	24.8	25.8	26.5
Variation of net credit to the government (yoy; CFAF billions)	85.1	-68.3	83.7	94.9	133.1
Central bank refinance rate (eop/latest; percent)	4.25	4.75	4.25	4.25	4.25

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

1/ Difference in 2009 between changes in NFA and NIR owing to SDR allocation.

Table 6. Financial Soundness Indicators for the Banking Sector, 2003–10
(Percent, unless otherwise indicated)

	Jun-05 Dec.	Jun-05 Dec.	Jun-05 Dec.	Jun-05 Dec.	Jul-05 Dec.	Jul-05 Dec.
Capital adequacy						
Capital to risk-weighted assets	11.7	11.5	10.8	12.9	16.3	18.0
Regulatory capital to risk-weighted assets	12.1	11.9	11.1	13.1	16.5	18.2
Capital to total assets	7.8	7.7	7.6	8.3	9.3	10.0
Asset composition and quality						
Total loans to total assets	59.6	57.1	64.0	63.8	59.5	57.5
Concentration: loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	71.7	70.6
Sectoral distribution of loans						
Industrial	41.1	33.6	35.5	28.9	27.5	21.0
Retail and wholesale trade	19.9	19.3	17.0	18.9	24.5	18.9
Services, transportation and communication	17.2	27.4	28.0	30.0	34.1	34.5
Gross NPLs to total loans 1/	13.3	12.6	11.9	16.8	18.7	20.2
Of which: without ICS	…	…	…	…	15.8	15.8
Provisions to NPLs 1/	75.3	75.7	75.4	52.0	53.1	54.9
Of which: without ICS	…	…	…	…	64.7	65.3
NPLs net of provisions to total loans 1/	3.3	3.4	3.2	8.8	9.7	9.1
Of which: without ICS	…	…	…	…	6.2	6.1
NPLs net of provisions to capital 1/	27.8	25.1	27.2	67.9	62.3	52.3
Of which: without ICS	…	…	…	…	38.4	41.5
Earnings and profitability						
Average cost of borrowed funds	1.8	2.0	2.0	2.2	3.4	…
Average interest rate on loans	8.7	11.7	11.8	11.3	15.4	…
Average interest margin 2/	6.7	9.7	9.8	9.2	12.0	…
After-tax return on average assets	1.8	1.8	1.6	1.6	1.3	…
After-tax return on average equity	22.1	17.6	15.8	14.6	16.0	…
Noninterest expenses/net banking income	48.9	48.7	47.9	49.4	60.3	…
Salaries and wages/net banking income	21.8	21.5	21.2	21.7	23.0	…
Liquidity						
Liquid assets to total assets	…	…	…	…	31.7	38.3
Liquid assets to total deposits	…	…	…	…	49.8	51.2
Total deposits to total liabilities	82.0	79.6	78.3	75.8	74.9	74.9

Source: BCEAO.

1/ NPL changes in 2006 owing to ICS. In 2008, ICS was recapitalized and the government guarantee for its bank loans was lifted. However, the loans in question remain classified as nonperforming for the time being, although without the need to provision.
2/ Excluding the tax on banking operations.

Table 7. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/
(CFAF billions, unless otherwise specified)

	December 31, 2010			March 31, 2011			June 30, 2011	September 30, 2011	December 31, 2011
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Prog.	Prog.
Assessment criteria									
Floor on the basic fiscal balance 2/ 3/	-119	-133	not met	*-24*	*-36*	not met	…	…	…
Floor on the overall fiscal balance 4/	…	…	…	…	…	…	-237	*-355*	-474
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 5/	0	0	met	500	0	met	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures 5/	0	0	met	0	0	met	0	*0*	0
Ceiling on government external payment arrears (stock) 5/	0	0	met	0	0	met	0	*0*	0
Ceiling on the amount of the budgetary float	50	48	met	*50*	*24*	met	50	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 5/	0	0	met	30	0	met	30	30	30
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*6*	*met*	20	*6*	met	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	*35*	*41*	*met*	…			*35*	…	*35*
Maximum upward adjustment of the overal deficit ceiling due to:									
Shortfall in program grants relative to program projections	…	…	…	…	…	…	*15*	*15*	*15*
Excess in concessional loans relative to program projections	…	…	…	…	…	…	*70*	*70*	*70*
Memorandum items:									
Program grants	…	…	…	…	…	…	*19*	*28*	*37*
Concessional loans	…	…	…	…	…	…	*114*	*170*	*227*

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

2/ Cumulative since the beginning of the year.

3/ Assessment of the criteria at end-March 2011 is based on preliminary data.

4/ The ceiling on the overall fiscal deficit will be adjusted in line with the TMU definition.

5/ Monitored on a continuous basis.

APPENDIX I

LETTER OF INTENT

[Translated from French]

Dakar, Senegal
May 19, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

The Government of Senegal requests completion of the first review of its 2010–2013 macroeconomic program supported by the Policy Support Instrument (PSI). In support of this request, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the program over the past six months and sets out the government's short- and medium-term objectives and policies under the program. These policies are consistent with Senegal's third generation New Economic and Social Policy Paper (DPES-III), which is being finalized and covers 2011–2015. Senegal's new development strategy is expected to be approved by mid-2011 and should be available for information to the Executive Boards of the World Bank and the IMF prior to the second review of the PSI.

All continuous and end-December 2010assessment criteria (ACs) were met, except for the AC on the basic fiscal balance. The end-December 2010 AC on the basic fiscal balance was missed by 0.2 percent of GDP, mainly as a result of the poor performance of oil-related revenues. Going forward, energy sector reform should help generate oil-related revenues and the government will make every effort to more effectively offset any revenue shortfalls that may occur with more prudent management of non-priority expenditures. The government is committed to implementing sound policies and maintaining the budget deficit in line with the objectives of the PSI program, with a view to lowering it to less than 4 percent of GDP in the medium term. The structural reforms, which largely focused on public financial management and the introduction of an energy sector restructuring plan, generally progressed on schedule, despite some delays.

The pressing problems of the energy sector could have major consequences for the Senegalese economy. A strong and urgent response from the government is therefore required. The government has already identified additional revenue that will be allocated to the newly established Special

Energy Sector Support Fund (FSE), which will be used to finance fuel supplies for energy production and to lease generation capacity, thereby allowing the rehabilitation of existing power plants and limiting disruptions in power supply. The government has also embarked on budget reallocations to ensure the financing of the FSE. However, it is also necessary to start with new investments to be able to replace expensive leased capacity after 2012. To finance these investments, additional budgetary space of 1.0 percent of GDP must be made available in 2011, for which many partners have expressed their willingness to provide support, mainly with concessional resources. For program monitoring purposes, we request modification of the fiscal deficit target to be changed to an overall fiscal deficit target from a basic balance target (modification of assessment criterion). By May 25, 2011, the government will submit to Parliament a supplementary budget in line with the new macroeconomic framework of the program, which will include the implementation of emergency measures for the energy sector. As indicated in the attached MEFP, the authorities continue to implement an ambitious reform program in government financial management, including improved public debt management.

The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the PSI-supported program. Given its commitment to macroeconomic stability and debt sustainability, the government will promptly take any additional measures needed to achieve the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or in the event of changes to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with information the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, and the debt sustainability analysis.

Sincerely yours,

/s/
Abdoulaye Diop
Minister of State
Minister of Economy and Finance

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

ATTACHMENT I

Memorandum of Economic and Financial Policies

Dakar, May 19, 2011

I. Introduction

1. **This memorandum updates Senegal's economic program under the Policy Support Instrument (PSI) for the three-year period 2010–2013.**[4] The main objectives of the PSI-supported program are to: (i) implement a prudent fiscal and debt policy to safeguard macroeconomic stability; (ii) increase revenue with a view to widening the budgetary space for priority expenditures; (iii) continue to strengthen public financial management and governance; and (iv) encourage private sector development by implementing structural reforms, in particular in the energy and financial sectors, as well as other reforms related to the business climate. The memorandum is divided into three sections. The first section reviews recent economic developments and program performance. The second section looks at macroeconomic policy and structural reforms for 2011–2012, while the last section covers macroeconomic objectives for the rest of 2011.

2. **In an uncertain external environment and in the face of major domestic challenges, the government remains committed to safeguarding macroeconomic stability and achieving other objectives of the PSI-supported program.** With the recent increase in international food and fuel prices, and in light of the domestic challenges related to the crisis in the energy sector, the government remains vigilant and is committed to taking the necessary measures to avoid disrupting fiscal stability and hindering economic activity.

II. Recent Economic Developments and Program Results

3. **Macroeconomic performance was favorable in 2010**. The Senegalese economy rebounded in 2010 thanks to the recovery of the world economy and continued efforts to regularize past extrabudgetary expenditure with a view to improving the financial situation of private sector enterprises. Overall, in spite of a difficult environment marked by worsening power blackouts, macroeconomic indicators for the Senegalese economy improved in 2010: GDP grew by 4.2 percent and inflation averaged 1.2 percent, in spite of accelerating in the fourth quarter. Significant progress was made in implementing public financial management and other structural reforms.

[4] The content of this program was set out in the initial MEFP of November 10, 2010.

4. **Program performance for the first review of the new PSI was broadly satisfactory, but the budget deficit was slightly higher than expected** owing to a shortfall in oil-related revenue. There were some minor delays in the implementation of structural reforms.

Quantitative assessment criteria and indicative targets for the program at end-December 2010, and at end-March 2011

(a) The basic fiscal balance (excluding HIPC and MDRI resources) amounted to CFAF -133 billion at end-December 2010, below the floor of CFAF -119 billion, and according to preliminary data at CFAF -36 billion at end-March 2011, somewhat below the floor of CFAF -24 billion.

(b) At end-December 2010 and at end-March 2011, the budgetary float stood at CFAF 48 billion and CFAF 24 billion, respectively, against the quarterly program ceiling of CFAF 50 billion.

(c) The government did not contract any nonconcessional debt over the period and all foreign debt service obligations were paid on time. Similarly, no expenditures outside of "normal and simplified procedures" were incurred during the period under review.

(d) On average, about 6 percent of government contracts were awarded non-competitively in the fourth quarter of 2010 and 6 percent in the first quarter of 2011, which is well within the quarterly ceiling of 20 percent set in the program (indicative target).

(e) Finally, expenditure on social services represented 40.6 percent of total expenditure at end-December 2010, exceeding the semi-annual floor of 35 percent set by the program for year-end 2010 (indicative target), which partly reflects increased spending on contractual employees in the education sector.

Structural benchmarks at end-April 2011

(a) The decree establishing the functions, composition, and operating rules of the committee to monitor expenditure execution was signed on January 28, 2011, and the committee began to operate (benchmark, January 31, 2011).

(b) In January, the government prepared an emergency plan for the electricity sector covering the period 2010-2014 called "Plan TAKKAL" (benchmark, January 31, 2011).

(c) An action plan for realistic budgeting and regular payment of the current expenditures of each ministry has been prepared in February and is being implemented (benchmark, February 28, 2011).

(d) The Minister of Finance submitted the tax policy reform strategy to the Council of Ministers in April (benchmark, March 31, 2011).

(e) The government website dedicated to the project to extend the Diamniadio highway to AIBD-Thiès-Mbour (benchmark, March 31, 2011) was set up on 11 April 2011, reflecting a slight delay in the launch of the project.

(f) In April, the government created the new public debt directorate by decree. The new directorate is responsible for the management of the domestic and foreign public debt portfolio and for, inter alia, managing market interventions (benchmark, April 15, 2011).

III. Macroeconomic Policy and Structural Reforms for 2011–2012

5. **The development strategy for Senegal will continue to focus on reducing poverty and improving the living conditions of the general public.** In support of continued strong, sound, and sustainable economic growth that can reduce poverty and turn Senegal into an emerging market economy in the medium term, the government has just finalized the first complete version of the new Economic and Social Policy Paper (DPES) for 2011–2015. The paper sets out the policies that form the basis of Senegal's economic and social development strategy and incorporates the macroeconomic objectives and reforms planned within the framework of the PSI. The DPES, with the related priority action plans, has been submitted to Senegal's development partners for comments on 27 April, with a view to finalize it by the end of June.

6. **The priority action plan of the 2011–2015 DPES** covers the following key sectors: (i) energy; (ii) road infrastructure in the country's interior and regional linkages; (iii) agriculture; and (iv) the social sectors (drinking water and sanitation, education, health). Measures in these sectors account for over 80 percent of the action plan.

7. **Progress and new challenges in the implementation of the key measures included in the program are as follows:**

Pursue a prudent public financial and debt policy and respond to infrastructure needs.

8. **The continuation of a prudent fiscal and debt policy is the main domestic instrument for preserving macroeconomic stability based on maintaining low inflation and public debt sustainability.** In this regard, the budget deficit will be reduced to below 4 percent of GDP in the medium term in order to maintain debt sustainability and achieve a fiscal balance consistent with WAEMU criteria.

9. **The government is committed to improving the composition and efficiency of expenditure.** To that end, current expenditure should be reduced by at least one percentage point of GDP between 2009 and 2013. This will free up more budgetary resources for investment.

10. **With the aim of attaining the millennium development goals, the government will continue to focus on social spending,** maintaining it at a minimum of 35 percent of total public expenditure at the end of each six-month period. The social sectors covered are: education, health, environment, justice, social development, and rural water resources. Information to track these

expenditures will be published on the website of the Ministry of Economy and Finance no later than one month after the end of each semester. Lastly, the government will continue its school canteen program to improve the school enrolment rates and the purchasing power of the poorest households. In that context, the government will evaluate the pilot program of conditional cash transfers to the poorest households, in conjunction with the World Bank.

11. **To improve the productivity of the economy and facilitate exports to the region, the government intends to reduce quickly the deficiencies in infrastructure.** To that end, the main investments planned for the period 2011–2015 are in the energy sector, roads, irrigation, and water resources management. The PSI program integrates major investments, including the extension of the Diamniadio toll highway to the Blaise Diagne international airport, Thiès and Mbour.

12. **New and considerable investment needs have surfaced, notably in the energy sector that suffers from a serious crisis in the electricity subsector.** This crisis is manifested in frequent power cuts that may be harmful to economic development, in particular to small and medium-sized enterprises, which constitute a major source of employment for the poor. The current situation, which largely results from the lack of investments for over a decade, requires a rapid and consistent reform strategy for the sector.

13. **During the fourth quarter of 2010, the government started a 360 degree diagnostic study of the energy sector**, with the support of an internationally reputable consulting firm, development partners, and all national experts in the sector under the umbrella of a Restructuring and Recovery Committee. The results of this diagnostic study facilitated the development of an Emergency Plan, a Restructuring and Recovery Plan for the energy sector covering the period 2011-2014, called Plan TAKKAL,[5] which was subsequently adopted by Parliament. For 2011 the plan focuses on emergency measures and investments to close the gap in power production capacity. To ensure that Plan TAKKAL is executed on schedule, a new institutional framework was implemented, including the creation of a Special Energy Sector Support Fund (FSE) designed to mobilize the financial resources needed to fund investments that would facilitate a quick exit from the crisis and to secure fuel supplies. Spending on emergency measures, managed by the FSE amounts to CFAF 113 billion in 2011 (close to 1.5 percent of GDP). For 2011, the FSE intends to close the tariff gap (CFAF 45 billion);[6] recapitalize SENELEC through securing its fuel supplies (some CFAF 40 billion); and contribute to new investments. The government is working in close collaboration with several development partners, including the World Bank and the French Development Agency (AFD), to implement Plan TAKKAL. The government already started reviewing the system for setting energy tariffs to more realistically reflect SENELEC's production costs. The main measures envisaged include reducing the tariff review period from

[5] See paragraph 32 for a description of the objectives and the strategy of Plan TAKKAL.

[6] Based on current rates and at an average price of US$ 95 for a barrel of oil in 2011.

five to three years, and determining and paying, if any, compensation to SENELEC on a quarterly basis. Discussions of the changes in the tariff structure have also started. Possible changes include the application of a fixed lump-sum fee for all consumers with a provision designed to protect the most vulnerable customers.

14. **The government will finance its investment program by pursuing a sound borrowing policy to preserve public debt sustainability.** The concessional resources mobilized from donors and domestic/regional financing remain its main sources of funding. In general, the government will not contract or guarantee foreign borrowing on nonconcessional terms. Any new non-concessional foreign loan or new guarantee by the government or any public entity is subject to a continuous assessment criterion. However, given the considerable needs, particularly in infrastructure, the government intends to contract nonconcessional loans without compromising its debt sustainability. As envisaged in the program, the government will consider using non-concessional foreign financing only for economically profitable projects (based on an evaluation by an internationally reputable institution) under the PSI program. In such cases, the government will explore options for appropriate financing to limit the overall cost of funds. It will consult with the IMF staff well in advance with regard to possible exceptions.

15. **The government intends to use part of its cumulative nonconcessional funding envelope of US $500 million (over three years) under the PSI to finance profitable investments in the energy sector**. At the start of the program, the government intended to use nonconcessional financing exclusively for the extension of the toll highway from Diamniadio to the Blaise Diagne International Airport, Thiès, and Mbour, but the urgency of investments needed in the energy sector warrants some adjustments. The government has therefore decided to slow down the project to expand the highway and is exploring the possibility of increasing the participation of private partners in the project. In keeping with the timetable for extending the highway, the first audit will be completed in October 2011 (adjusted structural benchmark, October 30, 2011).

16. **The use of nonconcessional financing in the energy sector will be limited to infrastructure investments with ensured economic and social profitability and consistent with Plan TAKKAL.** The investments are made with the view to increase the power generation capacity, and include temporary leasing of capacity to rapidly redress the current situation (stop the power outages) and the rehabilitation of existing power plants whose profitability is confirmed. The diagnostic study estimated that the energy crisis led to a loss of 1 percentage point of GDP growth last year and will have about 2 percentage of GDP of additional costs per year over the medium term if no remedial measures are taken to mitigate the effects of the crisis. The study also showed that without new investments, only 45 to 50 percent of the electricity demand in 2013 would be met. This would have substantial negative consequences for economic activity, the competitiveness of enterprises, the business climate, and poverty. To ensure that the resources are allocated to the intended investments, the procedures for new investments in energy will be the same as those for extending the highway, as agreed upon in the MEFP of November 10, 2010.

The nonconcessional financing will be deposited in a special account, which will have an energy subaccount and a highway subaccount. These accounts will be used exclusively to pay for the investments identified for the energy sector and for the extension of the highway, respectively. With respect to energy sector projects, starting July 30, 2011, the government will publish complete information on a monthly basis on: (i) the financial activity of the FSE; (ii) the projects that will be financed with nonconcessional resources; (iii) the state of progress of projects and their implementation; (iv) the details of financing and updates of project costs; and (v) the balance of the energy subaccount. The information will be posted within two weeks of the end of each month on a dedicated government website (new structural benchmark, August 31, 2011).

17. **As agreed in the Memorandum on Economic and Financial Policies dated November 10, 2010, the government also wishes to tap alternative financing for its investments, even if the degree of concessionality is below 35 percent.** In particular, the government is seeking nonconcessional financing of no more than CFAF 30 billion in 2011, with a grant element of at least 15 percent from donors that do not have highly concessional facilities. Such financing will not increase the assessment criterion concerning the budget deficit. The economic and social returns of the projects so financed must be assured. The government will inform the IMF staff in a timely manner before contracting any debt of this type and will provide all the necessary information to verify the degree of concessionality of the loans beforehand, as well as a brief summary of the projects and their profitability, including an assessment by the government or the lender. The government will incorporate in subsequent MEFPs a description of the use of the funds and a status report on the implementation of the projects in question.

18. **The government's plan to improve public debt management has benefited from a recent assessment and technical assistance missions from the IMF and World Bank.** The new public debt directorate created in April 2011 will be responsible for managing the domestic and foreign public debt portfolio and for market interventions. The organizational chart and a procedures manual are being prepared and will be completed no later than September 2011 (structural benchmark, September 30, 2011). The directorate will be operational in early 2012 (structural benchmark, January 15, 2012). It shall be responsible for debt issuance and repayment, as well as for the management of on-lending and, where applicable, for guarantees extended to public and private enterprises. These risks must be explicitly taken into account in the semi-annual debt sustainability analysis. The new public debt directorate will also maintain regular contacts with potential investors in Senegalese public debt securities. Finally, the government plans to prepare a new medium-term debt management strategy (new structural benchmark, June 2012). This strategy will review the characteristics of the existing debt portfolio, examine the prospects for medium-term financing, identify various possible financing options and risks, perform stress tests, and analyze the modalities of implementing the strategy.

19. **The government continues its efforts to improve cash management**. The Treasury is in the process of reconciling and analyzing the information in the bank accounts of government agencies, which it received from the banking system and from the ministries. Based on the results

of this work, it will proceed to close or regularize the accounts that were not properly opened and to streamline other accounts. This measure is part of the strategy for establishing a single treasury account (TSA). The strategy represents an instrument of government cash flow management by centralizing resources in the Treasury accounts. Such a measure would also help end the practice of holding idle balances in accounts at commercial banks. After this step, the government is determined to continuously improve and strengthen the system with the view to optimize the government's treasury management. The government will formulate a strategy and a timetable for the establishment of a single treasury account (structural benchmark, end-September, 2011).

Raise Revenue to Create More Fiscal Space for Financing Priority Spending

20. **The increase in tax revenue as a percentage of GDP remains a key objective for stabilizing government finances.** The government is pursuing this objective through reforms in three main areas: (i) streamlining tax expenditure; (ii) improving tax and customs administration; and (iii) modernizing tax policy with the view to broaden the tax base with a moderate tax burden. In implementing these reforms, the government will follow the recommendations of the IMF technical assistance missions. Moreover, in light of the importance of the VAT in tax revenue, the government will request technical assistance for reforming the VAT, including exemptions and the reimbursement system, by end-December 2011.

21. **The government plans to complete the reform of the general tax code by end-September 2012.** The tax reform is being prepared in consultation with employers and labor unions. This participatory approach should result in greater acceptance of the planned reforms. The main objectives continue to be simplification of the tax system, greater transparency, and increased revenue. Achieving these objectives will contribute to the implementation of a single tax law, coupled with a significant reduction in tax expenditure. The reform will reflect the recommendations of the recent technical assistance mission in the general area of tax policy. To better evaluate the likely results of the reform, the government will conduct a study to assess the likely impact of the VAT and income tax reform proposals. This assessment will evaluate the fiscal and administrative impact of the reform proposals, including the reduction of red tape and the cost of managing these taxes (new structural benchmark, February 2012).

22. **The government aims to reduce tax expenditure, raise revenue, and improve the transparency and efficiency of the tax system**. In consultation with national and international partners, it has analyzed the costs and benefits of a large share of tax expenditures and intends to begin reducing them. Starting in 2011, no new tax incentive agreements will be implemented. To facilitate the introduction of the single law on tax incentives in the context of the currently prepared new tax code, the government plans to repeal all exemptions under preferential tax regimes, while ensuring that the government's commitments will be met, but with the possibility of renegotiating agreements that have already been concluded.

23. **Modernization of the tax administration based on the strategic plan developed by the DGID will continue.** An office in charge of strategy and tax modernization will be created by

end-June 2011 to better guide tax administration reform. The pace of progress in computerizing procedures is being stepped up owing to technical assistance from the IMF. Better use of information technology will increase efficiency in tax collection and monitoring, and will improve tax revenue analysis. The plan to streamline and organize services outside the DGID includes the establishment of a large enterprise directorate and interregional functional directorates in Dakar and in some major towns in the interior of Senegal by end-2012. To improve the classification of taxpayers and risk management, the DGID will establish in the Department of Dakar two centers to monitor medium-sized enterprises with a turnover of CFAF 200 million to CFAF 1 billion and will reorganize the existing Tax Service Centers (CSFs) by end-2011.

24. **The government has made significant progress in implementing the DGD's strategic plan to modernize customs administration**. To that end, it signed a performance contract with DGD and agreed to finance the modernization process under the condition that the DGD would meet a number of objectives in customs administration. The key objectives include: (i) the rollout of the GAINDE 2010 system; (ii) enhancement of the anti-tax evasion mechanisms, including the implementation in June 2011 of an electronic oil tax assessment system; (iii) improvement of risk detection and management with the use of a risk management application in GAINDE by end-2011; and (iv) continuation of the project for paperless administrative and customs procedures with the common goal of completing the computerization of customs preclearance, clearance, and withdrawal procedures by end-September 2011.

Strengthen Public Financial Management and Governance

25. **Improvements in public financial management are based on the fiscal and financial reform plan (PRBF) of September 2009 and its regular updates, including the results of the 2011 Public Expenditure and Financial Accountability (PEFA) assessment**. The government is committed to stepping up its efforts to comply with the action plan to implement the new WAEMU directives. As part of its approach, the government will update the PRBF to take account of the results of the PEFA assessment, which should be validated in the coming weeks.

26. **The government will continue its ongoing efforts to compile the annual public accounts and to submit to Parliament the budget execution law for adoption in a timely manner.** To that end, it will continue to support the DGCPT in its reforms aimed at improving the information systems (ASTER, COLLOC, etc.) and increase its operational staff.

27. **The government has made progress toward its goal of improving the planning and execution of operating expenditures and is continuing its efforts in this area.** The compilation of an exhaustive list of contracts for water and telephone service is well advanced, but a similar list of electricity service contracts has been delayed because of difficulties with SENELEC. Based on the initial results covering water and telephone services, the government has terminated the contracts for services that are no longer used or are not used by the administration. At end-March 2011, the list of the government's service contracts with the SDE was brought up to date. With respect to SONATEL, the ministries and other public institutions were asked to cross-check their

accounts and the results are being processed. The government is in the process of implementing a computer application to improve the tracking of recurrent expenses. The government has also begun to use the results of the public expenditure review in the education sector conducted in collaboration with the World Bank and the preliminary results of the IGF audits of scholarships and study grants, as well as the salaries of contractual employees in the education sector. The government will use the results of these analyses to introduce a reliable system of monitoring expenditure execution in 2011 and to define a transparent procedure in determining the budget allocations for these expenses as part of the 2012 budget preparation.

28. **The settlement of extrabudgetary spending in 2008 is on track.** The committee in charge of the verification and payment of extrabudgetary expenditure in 2008 will complete its work at end-April and payments will be completed by end-June 2011.

29. **An IGF audit of 2009 expenditure confirmed that the problems observed in the past had been largely rectified**. However, there was still some extrabudgetary expenditure in 2009 as well as some new debts incurred by public institutions and agencies. The 2009 extrabudgetary expenditures were assessed at CFAF 69.9 million, less than 0.01 percent of GDP. The government, working in cooperation with the government judicial agency, will settle these liabilities upon presentation of evidence of the service provided. At end-June, the government will publish a press release summarizing the results of settling the 2008 extrabudgetary expenditures and will also report the results of the IGF audit of FY 2009 (structural benchmark, June 30, 2011). To avoid a resurgence of extrabudgetary expenditures, a circular from the Prime Minister will be addressed to all government employees reminding them of the sanctions applicable to persons authorizing extrabudgetary spending.

30. **The government has made progress, albeit modest, in improving the process of planning, evaluation, and selection of public investment projects.** The drafting of the "Project Preparation Guide" was slower than expected; its publication and dissemination will not be completed before end-December 2011 (structural benchmark, end-December 2011) because of insufficient funding. Also, the government will receive additional technical assistance from the World Bank for the preparation of the "Project Evaluation Guide." This assistance will be available in the second half of 2011. With respect to the analysis at the technical level of economic and social returns on completed investment projects, the government will complete an ex-post analysis of at least two completed projects by end-October 2011.

Private Sector Development

31. **The government is committed to promoting private sector development through structural reforms,** with a particular focus on the energy and financial sectors as well as other reforms affecting the business climate.

Energy sector

32. **The energy sector has had problems in recent years, which intensified in the last quarter of 2010 with the rise in blackouts.** To address the situation, the government conducted an in-depth diagnostic study of the sector with the help of local and international firms, and established an emergency plan for recovery and restructuring of the energy sector over the period 2010-2014, called Plan TAKKAL. This plan is based on the following five strategic pillars:

(a) **The rapid upgrade of the production mix**. In the short term, 150 MW of additional capacity must be leased to quickly restore supply (stop the blackouts). By leasing additional capacity, the existing plants could be upgraded and an additional 40 MW of capacity recovered. At the same time, the government will acquire intermediate capacity in the form of two barges, containerized power stations called Power Package Stations (PPS) producing 70 MW, a 6 MW (2 x 3 MW) plant in Tambacounda, the expansion of the existing plants at Bel Air and Kahone, and the repurchase and conversion to gas of the GTI plant. These acquisitions and expansions would significantly reduce energy production costs and strengthen power production capacity. In the medium and long term, this pillar envisages that the project to construct a coal-fired plant will be accelerated, an HFO diesel plant will be put into operation (150-200 MW), the gas supply will be secured, and the transport and power distribution lines will be upgraded.

(b) **Aggressive demand management.** The aggressive demand management plan is based on: (i) a communication and awareness campaign; (ii) new tariffs conducive to energy saving; (iii) the rapid mass distribution of power saving bulbs, and the banning of imports of incandescent bulbs; and (iv) a contract system that includes power-off times for large consumers with their own generators. This pillar of the strategy requires the installation of upgraded meters, prepaid meters, and a communication system that would allow remote meter reading and switching off power.

(c) **The financial support mechanism.** To finance Plan TAKKAL, the government created a Special Energy Sector Support Fund (FSE), which is financed by the state budget, special levies earmarked for that purpose, and contributions from foreign partners. The FSE will support SENELEC in obtaining fuel supplies (in the short term), and in financing its investments. The use of these resources would be subject to regular independent audits by the FSE board of directors, which includes, among others, consumer and management representatives.

(d) **Restructuring of SENELEC.** This pillar of the plan would be based on government support through the FSE for negotiating the terms and conditions of financial restructuring of SENELEC with its suppliers and banks that would put the company on a sound financial footing. SENELEC will also agree to make some internal adjustments to streamline its management.

(e) **Governance and communications**. The implementation of Plan TAKKAL depends on governance and communications. The National Energy Council, under the authority of the President of the Republic, will define the broad guidelines of the Plan and will monitor its implementation with the assistance of a Permanent Secretariat for Energy (SPE) responsible for the operational steering of the Plan under the joint supervision of the Minister of Finance and the Minister of Energy. The SPE includes a communications unit in charge of all communications with households and operators in the energy sector.

Water and Sanitation Sector

33. **The government is committed to taking steps to maintain the financial equilibrium of the water and sanitation sector.** A preliminary analysis estimates that, after the netting process of March 9, 2011, the government owes SONES CFAF 4.1 billion, SDE CFAF 1.1 billion, and ONAS CFAF 5.1 billion. A cross-debt settlement agreement was signed on April 21, 2011. The government paid a total of CFAF 4.1 billion (excluding VAT) and agreed that, by end-March 2012, it would define the modalities for settling the rest of the debt to the sector estimated at CFAF 6.3 billion. The government is also committed to paying on the due date all current invoices for water supply to government agencies. CFAF 15 million will be paid on these invoices in line with the budget law. The government is committed to finding the necessary resources to pay any remaining amounts on these invoices, including through changes in water tariffs based on current tariff adjustment simulations. A draft decree adjusting water and sewage tariffs was prepared by the Minister in charge of water resources and submitted to the President of the Republic for approval.

Financial Sector

34. **The government continues implementing the action plan of the second national dialogue on credit held in March 2010**. The plan covers a range of reforms of financing mechanisms, the banking sector, the insurance sector, microfinance institutions, and other financial intermediaries, as well as the legal framework and access to financial services. With respect to the implementation of the legal framework for establishing private credit registries and credit rating agencies, a status report on the framework was prepared and discussed during a workshop with the stakeholders. The conclusions point to the need for minimal regulation. A preliminary draft law was submitted by the consultant and the French translation is being validated before its review by the working group in May 2011. The next steps will consist of adapting the draft text to our legal, economic, and financial environment, holding sectoral meetings with the stakeholders, and discussing with the BCEAO its role in the system. The draft will then be submitted to the entities involved for comment, after which it will be passed on for adoption. To that end, a new timetable will be proposed by the working group to make it possible to adopt the draft law before end-December 2012. The targeted date for adopting a law favoring financial leasing by June 30, 2011 (structural benchmark) will be respected and this legislation

will be used by the BCEAO, which intends to submit to the Union's Council of Ministers a draft Community text on financial leasing

35. **In 2011, the government continued the institutional process of conversion of the Economic Development Fund (FPE) into a bank**. The capital, amounting to CFAF 6 billion, is totally paid in and available, and the licensing application for the new bank is being finalized. This decision does not comply with the recommendation of the WAEMU Council of Ministers to reduce governments' shareholding in banks. With that in mind, the government contacted some institutions that could acquire interests in the new bank, including the option to take over a portion of the government's shares.

36. **The study assessing the performance of Poste Finance was delayed**, but the Ministry of Finance is in the process of identifying the necessary budget appropriations to complete the process of selecting a consultant. The results of the study will be used by the steering committee in charge of implementing the restructuring of *Poste Finance,* which should propose to the authorities that it be reintegrated into the postal service or converted into a lending institution.

37. **The BCEAO National Directorate continues to perform stress tests on Senegalese banks to assess their resistance to shocks**. In this context, a preliminary analysis of the information available at the BCEAO estimates the value of Côte d'Ivoire treasury bills held by Senegalese banks at about CFAF 100 billion. It showed that the banking sector was sufficiently well-capitalized to withstand the worst case scenario of a default on these securities, with certain banks more exposed than others. Aware of the main risks in the Senegalese banking sector, the BCEAO will expand its stress test framework by including in its credit risk analysis banks' exposures to sectors and to large borrowers.

38. **To improve supervision of the microfinance sector, the government will streamline its activities in order to use the resources allocated to it more efficiently.** To that end, it will initiate a study to analyze the resources allocated to microfinance with a view to reducing them. The study shall be completed by January 2012 (structural benchmark, January 31, 2012) and will aim to:

- take stock of all resources allocated to microfinance;
- evaluate their impact on the sector;
- eliminate any support that is not considered necessary and, where appropriate, proposing measures to reallocate these resources to more useful activities, in particular, strengthening supervision and control of the microfinance sector by the SFD Supervision and Regulation Directorate.

In addition, an action plan to allow on-site supervision of all microfinance institutions (SFD) at regular fixed intervals will be prepared no later than August 2011. To that end, a working group, comprising all agencies involved in this area, will be formed to discuss and validate the guidelines of the action plan that shall also be submitted to the IMF staff for possible input.

Other Factors for Improving the Business Climate and Governance

39. **The government is paying special attention to structural reforms to improve the business climate.** The aim for the upcoming years is to improve the business climate by implementing the decisions adopted in the context of the Presidential Council on Investment. The reforms identified in the Memorandum of November 2010 are being pursued, with particular focus on computerization of procedures. Progress has been made in establishing a one-stop shop for building permit applications within the mayor's office. With support from the World Bank through the private investment promotion project, the Ministry of Justice is modernizing the trade clerk's office by developing an application that would computerize the issuance of documents by the register of real estate credit and commerce (RCCM). This project, currently in the pilot stage, will make it possible to reduce the time for processing cases and file applications for documents electronically online. The nationwide rollout of this program is scheduled for end-September 2011. Additionally, efforts to computerize the Ministry of Justice should also make it possible to prepare in 2012 statistics on the processing time for trade disputes.

40. **With regard to economic governance, the government will continue the reforms to achieve transparency in economic and financial operations and good governance in the administration.** The main areas targeted in 2011 are the following:

(a) ***Reform of the Audit Court.*** Proposals for amending the law on the Audit Court, to improve its functioning and effectiveness in auditing the government's accounts are being analyzed and the government has undertaken to submit the draft law to Parliament by end-2011. Improved functionality will enable the Audit Court to conduct rapidly annual audits of the government's accounts and issue opinions on the draft budget execution laws, as provided in the organic budget law.

(b) ***Procurement Code***. The draft decrees implementing the procurement code to include the concepts of "national security" and "defense of the essential interests of the State" will soon be submitted to the Council of Ministers for adoption. The draft laws incorporate the comments from the development partners. The government reiterates its commitment to limit the share of contracts awarded on a noncompetitive basis to 20 percent of all government contracts and provide the Public Procurement Regulatory Authority (ARMP) with the necessary resources to function autonomously.

(c) ***Laws against money laundering and the activity of the National Financial Intelligence Processing Unit (CENTIF).*** The government will authorize CENTIF to publish semi-annual statistics on its website showing the number of suspicious reports received, the number of cases submitted to the Attorney General's Office, the number of judicial prosecutions, and the number of convictions.

(d) ***Transparency in land transactions and publication of government private domain sales.*** Work continues on a stocktaking of private domain government property. The report will provide information on the number of cases of final sales of private domain government property in 2011, highlighting the square footage sold, the geographic location of the land, and the revenue received.

IV. MACROECONOMIC OBJECTIVES FOR THE REMAINDER OF 2011

Macroeconomic context

41. **The economic recovery in 2010 is expected to continue and strengthen in 2011,** with the continued recovery of the world economy and, domestically, the launching of the third-generation Economic and Social Policy Paper and execution of the Millennium Challenge Account projects, as well as improvements in the power supply through the implementation of Plan TAKKAL. Real GDP growth is projected to reach 4.5 percent in 2011, compared with 4.2 percent in 2010. Inflation is projected to increase to about 3.8 percent due to rising international food and fuel prices. The current account deficit (including official transfers) is expected to widen, but the overall balance of payments is projected to be positive and to contribute to the build-up of the Union's foreign exchange reserves.

42. **These projections are subject to substantial risks.** The continued rise in the prices of raw materials could slow the international economic recovery and negatively affect these projections. Substantial declines in remittances, official aid, available financing on the regional market, exports, or foreign direct investment would have a negative impact on economic growth and the balance of payments. Also, lack of progress in energy sector reform constitutes a downside risk for economic activity and public finances**.**

Fiscal Policy

43. **Fiscal policy must balance priority needs, including energy and infrastructure, with macroeconomic stability and debt sustainability.** As the risk of economic overheating is small and the threat of over-indebtedness minimal, there is some fiscal space—albeit temporary and limited—to meet the most pressing needs of the energy sector. The fiscal space available in 2011 was estimated at no more than 6.9 percent of GDP, taking FSE operations into account.

44. **The government will submit a supplementary budget to Parliament in line with the macroeconomic framework agreed with Fund staff (prior action) no later than May 25, 2011.** In order for fiscal policy to reflect properly the new priorities and urgent needs, the 2011 supplementary budget will regularize the budget reallocations made in February 2011 through advance decrees, as well as the orders canceling the corresponding allocations. These operations created fiscal space of CFAF 25 billion allocated to the FSE for emergency spending on the energy sector and space for expenditure, which arose late in the process, for the World Festival of Black Arts, totaling CFAF 20 billion. The 2011 supplementary budget will also

incorporate additional investment spending for energy, including the planned reallocation of CFAF 62 billion from the highway extension project to well-identified and highly visible projects in the energy sector. Other additional investments in the energy sector are covered in the DPES priority action plan.

45. **The government is determined to maintain fiscal transparency and intends in the context of the program to integrate the operations of FSE into the government financial operations table (TOFE) and in the deficit target.** The government will report key financial information on the FSE to the IMF staff on a monthly basis, including detailed data on: (i) FSE's total revenues (including budget transfers); and (ii) FSE's total expenditures, broken down into current expenditures (wages, tariff compensation, capacity leasing, and other current expenses) and capital expenditures (new investments, rehabilitation, recapitalization, etc.). The transactions of the FSE will be consolidated in the TOFE for program purposes and taken into consideration in evaluating the program assessment criteria for the fiscal balance.

46. **The government took administrative measures to limit the impact of the rise in food and energy prices on consumers by introducing price controls.** Keenly aware of the costs in terms of tax revenue and inefficiencies that similar measures entailed in 2007 and 2008, the government is determined to focus its fiscal intervention only on protecting the most vulnerable segments of the population. Furthermore, any eventual measures must be in line with the objective on the budget deficit as defined in the program and supplementary budget. In this context, the government introduced price stabilization measures for petroleum products in March 2011 but removed it in April and fully restored the import pricing mechanism for pump prices.

Program Monitoring

47. **The definition of foreign debt for program purposes and the definition of the fiscal balance for program purposes have been revised as described in the attached technical memorandum of understanding.** Foreign debt is defined as foreign currency-denominated debt; therefore any debt denominated in CFAF will be excluded from concessionality requirements. For program purposes, the government will focus on the overall budget deficit objective (including grants) as defined in the TMU.

48. **Quantitative assessment criteria for end-June 2011 and quantitative indicators for end-September 2011 have been set** in order to monitor program implementation in 2011 (see MEFP Table 1 below). The government and Fund staff have also agreed on the prior actions and structural benchmarks, as detailed in MEFP Table 2. The second PSI review should normally be completed by end-December 2011 and the third by end-June 2012.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/

(CFAF billions, unless otherwise specified)

	December 31, 2010			March 31, 2011			June 30, 2011	September 30, 2011	December 31, 2011
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Prog.	Prog.
Assessment criteria									
Floor on the basic fiscal balance 2/ 3/	-119	-133	not met	*-24*	*-36*	not met	…	…	…
Floor on the overall fiscal balance 4/	…	…	…	…	…	…	-237	*-355*	-474
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 5/	0	0	met	500	0	met	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures 5/	0	0	met	0	0	met	0	*0*	0
Ceiling on government external payment arrears (stock) 5/	0	0	met	0	0	met	0	*0*	0
Ceiling on the amount of the budgetary float	50	48	met	*50*	*24*	met	50	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 5/	0	0	met	30	0	met	30	30	30
Indicative targets									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*6*	*met*	*20*	6	met	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	*35*	*41*	*met*	…			*35*	…	*35*
Maximum upward adjustment of the overal deficit ceiling due to:									
Shortfall in program grants relative to program projections	…	…	…	…	…	…	*15*	*15*	*15*
Excess in concessional loans relative to program projections	…	…	…	…	…	…	*70*	*70*	*70*
Memorandum items:									
Program grants	…	…	…	…	…	…	*19*	*28*	*37*
Concessional loans	…	…	…	…	…	…	*114*	*170*	*227*

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

2/ Cumulative since the beginning of the year.

3/ Assessment of the criteria at end-March 2011 is based on preliminary data.

4/ The ceiling on the overall fiscal deficit will be adjusted in line with the TMU definition.

5/ Monitored on a continuous basis.

Table 2: Structural Benchmarks, 2011-12

Measures	MEFP §	Implementation Date	Benchmark for review *(to be discussed)*	Macroeconomic significance
CONTAINING THE BUDGET DEFICIT				
Submit to Parliament a draft supplementary budget for 2011 consistent with the macroeconomic framework agreed with the staff of the IMF.	44	May 25, 2011	Prior action	Macroeconomic stability.
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT				
Prepare a project evaluation guide.	30	December 31, 2011	3rd	Improve investment planning.
Create the organization chart and procedures for the entity responsible for managing the domestic and external public debt portfolio as well as market interventions.	18	September 30, 2011	2nd	Improve debt management.
Start up the new debt entity.	18	January 15, 2012	3rd	Improve debt management.
Prepare a medium-term debt strategy.	18	June 30, 2012	4th	Improve debt management.
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT				
Settle the final amounts of extrabudgetary expenditure and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit.	29	June 30, 2011	2nd	Strengthen public financial management and fully normalize financial relations with the private sector.
Formulate a strategy and timetable for the establishment of a Treasury Single Account.	19	September 30, 2011	2nd	Strengthen public financial management.

The government will conduct a study to assess the impact of VAT and income tax reforms (structural benchmark, February 2010).	21	February 28, 2012	3rd	Strengthen tax system.
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE AND ENHANCING EFFICIENCY IN THE FINANCIAL AND ENERGY SECTORS				
Publish complete information on (i) the energy support fund (FSE); (ii) its projects; (ii) the status of its planning and execution; (iii) the details of financing and updates on the cost of the works; and (iv) the position of the special account, on a monthly basis, within two weeks following the end of the month, on a specialized government website.	16	August 31, 2011	2nd	Improve the transparency of infrastructure-related investments.
Finalize legislation fostering the development of financial leasing.	34	June 30, 2011	2nd	Improve the efficiency of the financial sector.
Conduct an initial audit of the use of the resources allocated to the extension of the highway three months after the start of the project and publish the report on the government's website.	15	October 31, 2011	2nd	Improve the transparency of infrastructure-related investments.
Finalize the study of the resources used in the microfinance sector and their impact with the view to rationalize them.	38	January 31, 2012	3rd	Strengthen control and supervision of the microfinance sector.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, May 19, 2011

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2011-2013. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for end-June 2011 and end-December 2011, and quantitative indicators for end-September 2011, are shown in Table 1 of the MEFP. The prior actions and structural benchmarks established under the program are presented in Table 2.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

The Government

3. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with a separate legal personality (e.g., public universities and hospitals).

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) will be 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 at December 31, 2011, is CFAF 474 billion. It is calculated as the difference between total government revenue (CFAF 1558 billion) and total expenditure and net lending (CFAF 2032 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) indicated in Table 1 of the MEFP. The overall fiscal balance including grants will not be adjusted if grants exceed program projections.

7. The overall fiscal balance including grants is also adjusted downward by the amount that concessional loans exceed its programmed amount up to a maximum of CFAF 70 billion at current exchange rates (see MEFP, Table 1). For the computation of this assessment criterion, concessional loans denominated in CFAF, as well as 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.

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 in 2011 also excluding interest charges on financing of the autoroute extension).

Reporting requirements

10. The authorities will report annual data to Fund staff within two months following the end of the year.

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.

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 an advance decree 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 10, to Fund staff on a monthly basis with a maximum delay of 30 days.

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 18 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.

Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

17. **Government**. 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).

18. **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 current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
   i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
   ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
   iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

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

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

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

22. **Debt-related assessment criteria**. The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, SENELEC and the Energy Sector Support Fund (FSE). 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.

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

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

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

23. **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$500 million applies over the period 2011—13 for nonconcessional external debt financing tied to the highway extension Diamniadio-International Airport Blaise Diagne/Thiès/Mbour or investments in the energy sector. The funds obtained in this way will be deposited in a special account from which only such highway extension payments and energy sector investments will be made. Following the issuance of a US$500 million Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2011-13 is up to the amount of the actually exchanged or redeemed 2009 bonds (with a limit of US$ 200 million).

c) A separate ceiling equivalent to CFAF 30 billion in 2011 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements.

24. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

Public Sector Contracts Signed by Single Tender

Definition

25. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor

without competitive tender. The quarterly indicative target will apply to total public sector contracts.

Reporting requirements

26. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total value of public sector contracts and the total value of all single-tender public sector contracts.

III. Additional Information for Program Monitoring

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

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

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

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investments Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts;
- The provisional 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 provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances to Fund staff 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 government 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 monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastructures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.