International Monetary Fund

Senegal and the IMF

Press Release:
Press Release: IMF Executive Board Completes Fifth PSI Review for Senegal
June 21, 2013

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Senegal: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 3, 2013

The following item is a Letter of Intent of the government of Senegal, which describes the policies that Senegal intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Senegal, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Dakar, Senegal
June 3, 2013

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

Madame Managing Director,

1. The government of Senegal requests completion of the fifth review and an extension to end-2014 of support under the Policy Support Instrument (PSI) of its macroeconomic program. The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-December 2012, defines the macroeconomic objectives for the rest of 2013 and for 2014, and updates the structural reforms monitored under the program.

2. Program implementation remains satisfactory. All quantitative assessment criteria and indicative targets were met, with the sole exception of the ceiling on public procurements signed by single tender, which was missed by a small margin due to emergency expenditures. For the first time in recent years, the fiscal deficit target was met (at 5.9 percent of GDP). Implementation of structural reforms also recorded significant progress.

3. Reducing the fiscal deficit to levels consistent with debt sustainability remains a policy priority for the government. However, the fiscal outlook for 2013 is under strain due to a range of factors. These include the security situation in Mali and the Sahel and additional expenditure needs for a flood prevention program we designed in the wake of the major floods incurred in the second half of 2012. We therefore propose that the fiscal deficit target for 2013 be revised slightly upward to 5.3 percent of GDP, to accommodate the effects of these two exogenous factors. The new deficit target will still require substantial efforts to mobilize revenue and control spending, which we are committed to achieving. The Government reiterates its commitment to reducing the deficit below 4 percent of GDP by 2015.

4. In light of this change, the government requests modification of the end-June 2013 assessment criterion on the overall fiscal deficit. It is also proposed that the ceiling on nonconcessional borrowing be revised upward by US$300 million to allow for issuance of an international bond on favorable terms, and that the ceiling on semi-concessional borrowing

(financing having a grant element in the range of 15-35 percent) be raised to CFAF 67 billion to facilitate the financing of important investment projects. We also propose that the structural benchmark on the submission to Parliament of a new Customs Code be rescheduled to end-September 2013 to allow for further consultations with the private sector.

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

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

Sincerely yours,

/s/

Amadou Kane
Minister of Economy and Finance

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

Attachment I. Memorandum of Economic and Financial Policies Dakar, June 3, 2013

Introduction

1. **The government intends to press ahead with the policies it adopted when it took office.** The Senegalese people wish to have better governance, more jobs, more efficient basic services, and a lower cost of living. Accordingly, in order to meet the expectations of the general public, the government has undertaken to reform the State; conduct a prudent policy with respect to public finance and debt in order to safeguard macroeconomic stability; enhance revenue with a view to generating more fiscal space for financing priority spending; further strengthen public financial management and governance; and promote private sector development through structural reforms, with a view to achieving strong, sustainable, and inclusive growth.

2. **This MEFP updates the program supported by the Policy Support Instrument (PSI) over the period 2011-13.**[1] The MEFP includes three sections. The first section covers recent economic developments and the results of program implementation. The second section focuses on the macroeconomic outlook for 2013 and the medium term, as well as on macroeconomic policy and structural reforms. The last section is devoted to the changes desired in program monitoring.

Recent economic developments and program implementation

3. **Recent macroeconomic developments have been broadly in line with the projections made in the Autumn of 2012, although the external current deficit has deteriorated more sharply than anticipated.** Economic activity grew by 3.5 percent in 2012 against 2.1 percent in 2011, reflecting a favorable performance in agriculture (17.4 percent). Consumer prices recorded a moderate increase of 1.4 percent in 2012 compared to a 3.4 percent increase the preceding year. Conversely, foreign trade was characterized by a deterioration in the current account; the current account deficit moved from 7.9 percent of GDP in 2011 to 10.3 percent of GDP in 2012, inter alia on account of the upturn in oil imports and foodstuffs. The overall balance of payments has also registered a deficit. Credit to the economy grew by 9.6 percent while the money supply increased by 6.8 percent.

4. **Program implementation has remained satisfactory.** All quantitative assessment criteria and indicative targets for the program at end-2012 were observed, except for the indicative target on directly negotiated government contracts reflecting emergency procurement associated with

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

floods and the agriculture sector. The budget deficit target was met in spite of sizable revenue losses (deficit of 5.9 percent of GDP). These losses were primarily attributable to the non-transfer to the treasury of the VAT withheld by public agencies and entities, and to the difficulties experienced by SENELEC, which has been unable to pay all its taxes and duties. On the expenditure side, the wage bill recorded a slight slippage, largely as a result of greater-than-anticipated tenure for education contractuals and the associated costs. Conversely, savings were recorded with respect to interest on public debt and current expenditure, and the rate of implementation of certain capital expenditures—in particular, externally funded expenditures—slowed down.

5. Implementation of the structural reforms has also made significant headway:

(i) the general tax code has been reformed in a transparent fashion using a participatory approach;

(ii) a public investment assessment guide was completed at end-2012 and user training has begun;

(ii) information on transactions pertaining to the State's private property began to be published in March 2013;

(iii) the rollout of the Single Treasury Account (STA) has made good progress although it remains incomplete (see below);

Macroeconomic policy and structural reforms for 2013 and the medium-term

6. Senegal's national economic and social development strategy (SNDES) envisages an emerging economy ensuring sustainable development, whose beneficial effects are widely shared. The SNDES is expected to provide the solutions needed to ensure that the Senegalese economy can be put back on a more vigorous and sustainable growth track. The aim will be to implement reforms designed to trigger further productivity gains as a prerequisite for development, thereby laying the groundwork for a new model of economic growth. The SNDES focuses on three pillars: (i) growth, productivity, and wealth creation; (ii) human capital, social protection, and sustainable development; and (iii) governance, institutions, peace, and security.

A. Macroeconomic Context for 2013

7. In spite of a challenging international environment, GDP growth is expected to record a slight upturn to 4 percent in 2013. This uptick should be supported by the dynamic performance of the agriculture subsector, the coming to fruition of projects financed by the Millennium Challenge Account (MCA), improvement in electricity supply and the return of growth to Mali. Inflation should stay well below the WAEMU convergence criterion of 3 percent. The current account deficit as a percentage of GDP is expected to improve.

8. Risks have increased since the last review. The crisis in the eurozone remains the primary downside risk for the Senegalese economy. The channels whereby weak growth in Europe spreads to the national economy are exports, FDI, aid, transfers of funds, and tourism. The risk that insecurity could spread from Mali may also call for more sizable security expenditures and may affect how risk in the region is perceived by investors. Domestically, the main risks have to do with fiscal consolidation and delays in implementation of energy sector reforms.

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

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

10. A significant reduction in the budget deficit in 2013 and in the medium term remains a priority objective. In order to preserve debt sustainability and restore fiscal space for the future, it is imperative to reduce the public debt by raising government revenues, through fairer and more efficient taxation, while streamlining government expenditure. In 2013, the reduction of the deficit will be smaller than anticipated, on account of the fiscal impact of two exogenous shocks. The security situation in Mali and in the Sahel requires us to increase Senegal's security expenditures this year. Furthermore, major flooding in the second half of 2012 necessitated urgent capital expenditures which had anticipated at the time of the 4th program review. In the aggregate, these additional expenditures amount to approximately CFAF 30 billion (including CFAF 20 billion for security expenses) and lead to an upward revision of the budget deficit target for 2013 to 5.3 percent of GDP. However, we remain committed to our goal of reducing the deficit to less than 4 percent of GDP by 2015.

11. Concerted efforts will be made to reverse the erosion of budget revenue observed in 2012. Comprehensive reform of the General Tax Code will help mobilize additional revenue, including through abolition of the VAT exemption in favor of externally funded operations in the form of subsidies or nonreimbursable grants, VAT taxation of the traffic balance of telecommunications operators, introduction of a tax on cosmetics, an increase in the tobacco tax rate as well as the application of an advance payment on the industrial and commercial profits tax levied on imports of a number of products. Phasing out withholding will help overcome the constraints affecting the management of the VAT and will facilitate VAT collection. Revenues generated by mining activities have also been revised downward. Cooperation between the General Directorate of Customs (DGD) and the General Directorate of Taxes and Government Property (DGID) is continuing through to the efforts of a joint control brigade, the signing of a memorandum on information exchanges and the more widespread use of the single identifier for economic agents (national registration number for enterprises and associations or NINEA); these measures should also help enhance revenue collection.

12. Efforts to curb current expenditure are continuing. In the education sector, action to curb expenditure on the wages of contractuals has been a priority. New software allows for real-time monitoring of trends in staffing levels and their distribution by education district. Furthermore, the survey of teaching personnel has allowed for more efficient deployment in response to needs. To improve management of the civil service and the payroll, the physical and biometric audit of civil service personnel has been carried out and its results will be published shortly. Disputed cases are carefully reviewed. We are undertaking to complete this process before July and to impose appropriate penalties forthwith (including such layoffs as may prove necessary). In order to have a comprehensive database that allows for meaningful budget programming of permanent expenditures (water, electricity, telephone), we have set up a module for the computerized management of such expenses. This tool will now be used to work with and validate data from invoices.

13. **Expenditure targeting in certain priority sectors is continuing.** Criteria for allocating subsidies to public health establishments are now based on more objective considerations; rationalization of the directorates of the health ministry is also under way. Budget allocations in favor of the agriculture sector have focused on replenishing seed capital and equipment in the rural community. With respect to advanced education, audits of scholarships and the financial equilibrium of universities are in progress; the conclusions should help rationalize the resources earmarked for this sector. A study evaluating government agencies is underway and will make it possible to propose restructuring measures as well as a model performance contract to be signed between the government and the remaining agencies.

14. **The urgent need for greater efficiency applies especially to expenditures in favor of the most disadvantaged members of society, in light of the government's finite resources** We repeat our firm intention to phase out subsidies for energy prices (electricity and petroleum products). Last year, direct or indirect support for energy prices cost Senegalese taxpayers over CFAF 160 billion (CFAF 105 billion in tariff compensation for Senelec, nonpayment of taxes and duties by SENELEC in the amount of CFAF 37 billion, and CFAF 24 billion in foregone tax revenue to stabilize prices at the pump). However, these subsidies failed to ensure financial sustainability for SENELEC. This is an unjustifiable burden in the sense that just a fraction of these subsidies goes to benefit the most disadvantaged members of society. We plan to reduce these subsidies and to replace them with better targeted and more efficient social protection arrangements, such as the Family Security Allowance (Bourse de Sécurité Familiale), which will benefit 50,000 vulnerable families in 2013 and will be expanded in the years to come.

15. **In line with the debt management strategy prepared in 2012, we intend to continue our efforts to lengthen the maturity of market public debt.** This strategy has shown encouraging results, with medium-term and long-term instruments accounting for a more substantial share of domestic/regional debt. This trend will be strengthened and consolidated. The current situation on international markets seems conducive to issuing a new international bond on terms far more favorable than in 2011, provided that this bond is on a sufficient scale to be included in international indices. A new bond in the amount of US$500 million and bearing a maturity of 10 years would make it possible for us to complete the financing of the 2013 budget at a rate close to the domestic financing rate, while also reducing reliance on short-term borrowing on the regional market. Such an operation would make it possible to lengthen significantly the average maturity of market debt and thereby to reduce refinancing risk and interest rate risks. We intend to follow best practices

when issuing this new bond. An increase in the envelope for semi-concessional lending (financing having a grant element of between 15 percent and 35 percent) from CFAF 44 to 67 billion would make it possible to provide partial financing for road infrastructure projects, such as the Samba Dia-Joal- Djiffère road, or projects linked to flood prevention.

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

16. The new tax code which took effect in January 2013 represents a major step forward, but it is not the last word in tax reform. This year, efforts have focused on establishing the new code, with training for personnel entrusted with applying the new provisions and responsible for communicating with users. Over time, however, there are plans to make further efforts to complete the modernization and reform of the tax laws. In particular, we are referring to the rationalization of stamp duties, comprehensive taxation of the financial sector (banks and insurance) and telecommunications, the imposition of taxes on e-commerce, and environmental taxation. For all of these issues, research must be conducted in the course of 2014, in order to ensure that appropriate solutions can be proposed and implemented as of early 2015.

17. Modernization of the tax administration is continuing. Following the adoption of the new general tax code, it is important to ensure that the code is properly implemented in order to ensure that the efforts to improve the overall performance of the Senegalese tax system can truly come to fruition. Accordingly, the structural reorganization that began with the creation of the medium-sized enterprises tax center will be completed by end-June 2013, with the establishment of a large enterprises directorate as well as of the interregional operational directorates in Dakar and in a number of other major municipalities. Furthermore, appropriate reforms in the area of human resources—such as the recruitment necessary to eliminate the current shortages—will be implemented.

18. The General Customs Directorate (DGD) is continuing efforts to implement the modernization program defined in the 2011-2013 Strategic Plan. For 2013, targets focus essentially on boosting the DGD's contribution to government budget resources through optimal mobilization and collection of customs revenues; continuation of the privileged partners program through the granting of personalized and simplified customs clearance procedures for eligible firms; extending the scope of the comprehensive GAINDE program to include border offices after the main Dakar offices; integration of special modules (*modules-métiers*) in GAINDE, with a view to pursuing further efforts to continue the computerization of administrative and customs procedures which took effect on March 11, 2013. The completion and submission to Parliament of the draft reform of the customs code have been rescheduled until September 30, 2013, in order to allow for wider-ranging consultations with the private sector. The midterm evaluation of the strategic plan showed that the planned actions had recorded a rate of execution of 51 percent. The final evaluation, scheduled for early 2014, will make it possible to review the reforms undertaken and to identify the way forward.

D. Strengthen Public Financial Management and Governance

19. Efforts to improve public financial management are continuing. Quarterly budget execution reports, specified by the new organic law on budget laws, will be produced for the year 2013, transmitted periodically to the national Assembly, and published on the dedicated website at the Ministry of finance. The first report is now available. The new WAEMU directives on government finance have been fully transposed into domestic positive law. They will be implemented progressively in with test stages to consolidate the results achieved. An implementation plan will be prepared by end-July 2013 and will be shared with Fund staff. With particular reference to the Transparency Code, work to identify its impact on the existing legal framework will be completed in 2013 with a view to ensuring its effective implementation as of early 2014, following adoption of a law on the disclosure of assets. The draft budget execution law for 2011 was prepared and submitted to the Audit Court in early July 2012. However, the provisional report was not transmitted to the government until end-February 2013. Responses to the comments contained in the provisional report have been transmitted to the Audit Court in preparation for the hearings. The draft budget execution law for 2012 is currently being prepared and will be transmitted to the Audit Court by no later than end-June 2013. Supplemental appropriation orders (*décrets d'avances*) will be used in exceptional cases only, in accordance with current regulations. Such decrees will be transmitted to the Finance Commission of the National Assembly upon their signature, in pursuance of the provisions of the 2011 Organic Law on budget laws.

20. Efforts to improve land governance are continuing, in particular through the Urban Property Management Support Project (PAGEF). The purpose of PAGEF is to ensure the availability, reliability, and accessibility of real estate information while rationalizing and ensuring the transparency of the land management framework. These challenges will be addressed through the automation of land and government property procedures. The government's properties will be fully inventoried by end-2014. The inventory of laws on real estate, the establishment of a manual of procedures, and the development of a conceptual model for IT data will be completed by no later than mid-2014, while the automation of procedures will be completed by end-2015.

21. The establishment of the Single Treasury Account (STA) has made progress but is not yet complete. The survey of bank accounts opened by the central government and central government agencies has been carried out. In this context, 3,305 accounts were identified, about half of which will be integrated into the STA framework. The elimination or reduction of bank accounts should now be undertaken. It will nonetheless be preceded by a study pertaining to the impact of such measures on the banking system, which shall be completed by end-June 2013. In the immediate future, the chosen approach will be to maintain for each autonomous structure—except in thoroughly justified exceptional cases—one single bank account financed from deposit accounts at the Treasury on the basis of a duly justified estimate of needs. This account will include agencies' own resources. For accounts that will be retained once the rationalization process is complete, an agreement will be entered into with the banks concerned which inter alia will specify the operating conditions, in particular reporting and sweeping modalities. This process will be completed by end-September 2013. The restructuring of the legal framework for the opening, functioning, and closure of the Treasury deposit accounts of agencies, public entities and related public entities is in progress.

E. Private Sector Development

Energy sector

22. The government adopted a new energy production plan in February 2013. The 2013-2017 plan for developing production facilities is based on an energy policy mix combining coal, natural gas, hydroelectricity, and renewable energies. In addition to the rehabilitation of SENELEC's production facilities, which are in progress, this plan makes provision for the following additional capacities: the Félou hydroelectric power station of 15 MW in 2013, an IPP in the amount of150 MW (liquefied natural gas) in April 2014, the IPP Tobéne (Taiba Ndiaye) of 70 MW in 2014, a coal-fired IPP (Sendou) of 125 MW in April 2015; an import of 80 MW from the natural gas powered plant in Mauritania in October 2015; a coal-fired IPP with Kepco of 250 MW between 2016 and 2017, and renewable energy projects. A standing interministerial committee for monitoring energy projects has been instituted. The coming on stream of these new units will be accompanied, at current oil prices, by the phase-out of the electricity subsidy and will lead over time to lower costs for the user.

23. Implementation of the plan for the operational and financial restructuring of SENELEC, adopted in November 2012, is in progress. The goals that have been set should allow for rehabilitation of the financial situation; restoration of equilibrium between supply and demand, in addition to optimization of management through the combining of the efforts made by the State (consolidating under share capital the balance of cross-claims accruing to the State and accounting for investments made by the State as a capital subsidy) as well as of the savings anticipated by SENELEC (optimization of the various power plants, reduction of network losses, reduction of operating outlays, efforts to combat fraud, improvement of billing and shorter payment processing times). In addition to the execution of the rehabilitation plan by the SENELEC board of directors, the performance contract between the State and SENELEC will be signed in early June 2013 and independently audited.

24. Other reforms are under way or under consideration in the hydrocarbons sector. The Société Africaine de Raffinage (SAR) receives direct or indirect support from the State of about CFAF 40 billion per year. Various options may be considered in order to address this problem; a strategy will be finalized by end-August 2013. Revision of the petroleum code and standard contracts for research and sharing of hydrocarbon production are continuing. The aim is to improve the framework of laws and regulations governing the exploration and production of oil and gas as well as to establish regulations applicable to petroleum operations, while enhancing the attractiveness of the sector (albeit without having recourse to new tax exemptions). The process, which began in February 2013, will be completed in 2013.

Financial sector

25. The updating of the action plan deriving from the recommendations of the national dialogue on credit in 2010 will be completed at end-June 2013. A number of flagship measures in the existing plan have already been implemented, in particular, the preparation of the law on leasing, the taking into account of tax reforms in the new general tax code (Islamic financial products and venture capital), the launching of the body monitoring the quality of financial services, the carrying out of the study on the analysis of the stable portion of demand deposits and special accounts which led to the reduction of the transformation ratio from 75 percent to 50 percent, and the establishment of a formal framework for dialogue. Notwithstanding these efforts, an execution rate of just 31 percent was recorded for the measures under the plan for which a deadline had been set. In order to expedite the implementation of 33 actions (out of a total of 65) not yet implemented, an update of the action plan has begun. The updating is being conducted on a participatory basis with the stakeholders concerned and with a focus on identifying implementation problems.

26. To facilitate access by SMEs to financial services, three instruments are under development. The National Economic Development Bank (BNDE) is expected to be a universal bank, with a minority public stake specifically dedicated to SME financing. The Sovereign Strategic Investment Fund (FONSIS), wholly held by the State and State agencies, would be required invest in projects that are strategic, vital, profitable, and job-creating, support SMEs through a secondary fund, and manage certain government holdings. The purpose of the Priority Investment Guarantee Fund (FONGIP) would be essentially to contribute guarantees for loans granted by financial institutions for projects, including from economic interest associations of women or young people, making investments in priority sectors defined by the government.

Other factors involved in improving the business climate, governance, and competitiveness

27. The emergence of the private sector as an engine of growth requires establishing a business climate conducive to domestic and foreign private investment. For this purpose, the Presidential Investment Council at end-2012 adopted a new three-year (2013-2015) program for improving the business climate and competitiveness, focusing on four strategic pillars: automation of investment-related administrative procedures; strengthening of the competitiveness of the factors of production; assistance to the concerned departments and communication on reforms; promotion of investment with a substantial social impact. This program encompasses 56 priority measures, including approximately 20 urgent measures to be carried out during 2013 with a view to improving Senegal's performance in the forthcoming international rankings. The main measures for 2013 are: implementation of the automatic construction permit procedure (to reduce processing times which are currently 210 days); full automation of the procedure for registering a new business; adoption of the law on the status of small entrepreneurs; revision of the Code of Civil Procedure to ensure expeditious treatment of economic disputes and improved protection for investors; computerization of the clerk of court service. A National Commission on Land Reform has been established to equip Senegal with effective land laws and an efficient land management system.

Program implementation

28. We are requesting a one-year extension of the PSI in order to continue benefiting from Fund assistance in implementing reforms critical to attaining the program objectives. A seventh and an eighth review should therefore be added in 2014 to monitor program implementation.

29. In light of the preceding sections, a number of changes in the program design are in order. End-2013 targets are proposed for the quantitative assessment criteria, including a target of 5.3 percent of GDP for the budget deficit. The ceiling on nonconcessional borrowing would be revised upward by US$300 million to allow for issuance of an international bond on favorable terms. The ceiling on semi-concessional borrowing (financing having a grant element in the range of 15-35 percent) would be raised from CFAF 44 billion to CFAF 67 billion. Indicative targets are proposed for 2014, in addition to new structural benchmarks.

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

(CFAF billions, unless otherwise specified)

	December 31, 2011			March 31, 2012			June 30, 2012				September 30, 2012			December 31, 2012			
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Adj.	Prel.	Status
Assessment criteria [1]																	
Floor on the overall fiscal balance [2,3]	-427	-455	not met	*-102*	*-70*	met	-213	-181	-102	met	*-319*	*-145*	met	-425	-420	-420	met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	300	met	500	300	met	500	…	300	met	500	300	met	500	…	300	met
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	met	0	0	met	0	…	0	met	0	0	met	0	…	0	met
Ceiling on government external payment arrears (stock) [4]	0	0	met	*0*	*0*	met	0	…	0	met	*0*	*0*	met	0	…	0	met
Ceiling on the amount of the budgetary float	50	50	met	*50*	*49*	met	50	…	40	met	*50*	*51*	not met	50	…	48	met
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	0	met	44	0	met	44	…	0	met	44	0	met	44	…	0	met
Indicative targets																	
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*16*	met	*20*	*14*	met	*20*	…	*11*	met	*20*	*24*	not met	*20*	…	*24*	not met
Floor on social expenditure (percent of total spending)	*35*	*37*	met	…	…	…	*35*	…	*35*	met	…	…	…	*35*	…	*41*	met
Maximum upward adjustment of the overall deficit ceiling due to																	
Shortfall in program grants relative to program projections	15	…	…	15	…	…	15	…	-6	…	15	…	…	15	…	-4	…
Shortfall in concessional loans relative to program projections	50	…	…	50	…	…	50	…	-11	…	50	…	…	50	…	-5	…
Shortfall in energy sector and autoroute investment relative to program projections	50	…	…	50	…	…	50	…	-27	…	…	…	…	…	…	…	…
Memorandum items:																	
Program grants	37	37	…	9	…	…	19	…	13	…	28	…	…	48	…	52	…
Concessional loans	210	175	…	52	…	…	105	…	94	…	157	…	…	328	…	323	…
Investment in the energy sector and the autoroute [5]	66	66	…	*44*	…	…	60	…	*33*	…	*122*	…	…	120	…	…	…

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

[2] Cumulative since the beginning of the year.

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

[4] Monitored on a continuous basis.

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

Table 2. Quantitative Assessment Criteria and Indicative Targets for 2012–13

	(CFAF billions, unless otherwise specified)				
	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	Prog.	Prog.	Prog.	Prog.	Prog.
Assessment criteria [1]					
Floor on the overall fiscal balance [2] [3]	-425	*-101*	-203	*-304*	-406
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	500	500	800	800	800
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	*0*	0	*0*	0
Ceiling on the amount of the budgetary float	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	44	44	67	67	67
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	35	…	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling owing to					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
Memorandum items:					
Program grants	48	10	19	29	38
Concessional loans	328	52	104	156	208

[1] Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.
[2] Cumulative since the beginning of the year.
[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.
[4] Monitored on a continuous basis.

Table 3. Quantitative Assessment Criteria and Indicative Targets for 2013–14

	(CFAF billions, unless otherwise specified)				
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	Prog.	Prog.	Prog.	Proj.	Proj.
Assessment criteria [1]					
Floor on the overall fiscal balance [2] [3]	-406	*-94*	-189	*-283*	-377
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ millions) [4]	800	800	800	800	800
Ceiling on spending undertaken outside normal and simplified procedures [4]	0	0	0	0	0
Ceiling on government external payment arrears (stock) [4]	0	*0*	0	*0*	0
Ceiling on the amount of the budgetary float	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent [4]	67	67	67	67	67
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	35	…	*35*	…	*35*
Maximum upward adjustment of the overall deficit ceiling owing to					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
Memorandum items:					
Program grants	38	10	21	31	42
Concessional loans	208	64	129	193	257

[1] Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.
[2] Cumulative since the beginning of the year.
[3] The ceiling on the overall fiscal deficit will to be adjusted in line with the TMU definition.
[4] Monitored on a continuous basis.

Table 4: Structural Benchmarks

Measures	MEFP §	Implementation date	Benchmark for review	Macroeconomic importance	Status
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT					
Prepare an investment evaluation guide	24 (prev. MEFP)	December 31, 2012	5th	Improve quality of government expenditure	Met
Submit new Customs Code to Parliament	18	Rescheduled to September 30, 2013	6th	Increase the government resources and encourage private sector development	Ongoing
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT					
Publish information on transactions pertaining the State's private property	5	January 31, 2013	5th	Strengthen fiscal transparency	Met, with a delay (March 2013)
Finalize the Treasury Single Account	21	February 28, 2013	5th	Strengthen fiscal transparency	Not met, but progress made
Produce a plan to restructure all agencies and comparable entities	22 (prev. MEFP)	July 31, 2013	6th	Strengthen public financial management	Ongoing
Roll out the new payroll management software	12	August 31, 2013	6th	Strengthen public financial management	Ongoing
Use cost-benefit assessment for investment projects exceeding CFAF 10 billion to be included in the budget for 2014	24 (prev. MEFP)	July 31, 2013	6th	Improve efficiency of government expenditure	Ongoing
Submit to the Assembly a draft law on disclosure of assets	19	January 1, 2014	7th	Strengthen fiscal transparency	New
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, ENHANCING GOVERNANCE, AND ACHIEVING GREATER EFFICIENCY IN THE ENERGY SECTOR					
Roll out on-line filing and on-line payment of taxes for large enterprises	17	June 30, 2013	6th	Enhance efficiency of government and improve the business climate	Ongoing
Roll out on-line filing and on-line payment of taxes for all tax payers in the Dakar area	17	January 1, 2014	7th	Enhance efficiency of government and improve the business climate	New

Attachment II: Technical Memorandum of Understanding

Dakar, June 3, 2013

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2011–2014. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

Program Conditionality

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

Definitions, Adjusters, and Data Reporting

A. The Government

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

B. Overall Fiscal Balance (Program Definition)

Definition

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

Example

5. The floor on the overall fiscal balance including grants (program definition) as of December 31, 2012, is minus CFAF 425.4 billion. It is calculated as the difference between total government revenue (CFAF 1,723.2 billion) and total expenditure and net lending (CFAF 2,148.7 billion).

Adjustment

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

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

Reporting requirements

8. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance, and on expenditure financed with HIPC- and MDRI- related resources, will be drawn from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but not later than two months after the reporting of the provisional data.

C. Social Expenditure

Definition

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

Reporting requirements

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

D. Budgetary Float

Definition

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

Reporting requirements

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

E. Spending Undertaken Outside Simplified and Normal Procedures

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

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

F. Government External Payments Arrears

Definition

15. External payments arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 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.

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

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

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

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

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

19. **Debt concessionality**. For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount 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.

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

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

22. **Special provisions**:

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

b) A total ceiling of US$800 million applies over the period 2011–14 for nonconcessional external debt financing to be used for investment projects, including in

---

[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.

road infrastructure, the energy sector, and urban water and sanitation, and to reduce the recourse to regional market financing. Following the issuance of a Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2013–14 is US$500 million.

c) A separate ceiling equivalent to CFAF 67 billion in 2011–14 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

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

H. Public Sector Contracts Signed by Single Tender

Definition

24. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector contracts entered into by the government or any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude fuel purchases by SENELEC for electricity production. This exclusion reflects new regulation, which requires SENELEC to buy fuel directly from SAR based on the existing price structure.

Reporting requirements

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

Additional Information for Program Monitoring

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

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

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

Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue on a monthly basis;

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

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

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

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

The provisional monthly balance of the Treasury accounts; and

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

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

27. During the program period, the authorities will transmit to Fund staff provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances on a monthly basis with a lag of no more than 30 days. The data will be

drawn from preliminary consolidated Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no more than one month after the reporting of provisional data.

28. The central bank will transmit to Fund staff:

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

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

The monetary survey, on a monthly basis, with a maximum lag of two months;

The lending and deposit interest rates of commercial banks, on a monthly basis; and

Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, within a maximum delay of two months.

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

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

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

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

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