

**Senegal: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criteria and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Senegal**

In the context of the first review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility, and requests for waiver of performance criteria and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the first review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility, and requests for waiver of performance criteria and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **October 30, 2003**, with the officials of Senegal on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 29, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the **views of the Executive Board as expressed during its February 13, 2004 discussion** of the staff report that completed the review.
- a statement by the Executive Director for Senegal.

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

Letter of Intent sent to the IMF by the authorities of Senegal\*

Memorandum of Economic and Financial Policies by the authorities of Senegal\*

\*May also be included in Staff Report

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

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# INTERNATIONAL MONETARY FUND

## SENEGAL

### **First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criteria and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries**

Prepared by the African Department

Approved by Amor Tahari and Michael T. Hadjimichael

January 29, 2004

- **PRGF arrangement.** On April 28, 2003, the Executive Board concluded the 2002 Article IV consultation and approved a new three-year PRGF arrangement for SDR 24.27 million (15 percent of quota). Following an initial disbursement of SDR 3.47 million, an equal amount would be available at the completion of this review.
- **Enhanced HIPC Initiative.** For 2003, Directors approved additional interim assistance from the Fund of SDR 5.083 million. The authorities are requesting additional interim assistance in the amount of SDR 1.066 million for February-April 2004. Senegal is expected to reach the completion point under the enhanced HIPC Initiative by end-March 2004.
- **PRSP.** The PRGF-supported program draws on the more conservative macroeconomic assumptions of the poverty reduction strategy paper (PRSP) presented to the Executive Boards of the Fund and the World Bank in December 2002. The authorities expect to finish a PRSP progress report in early 2004.
- **Developments.** Exogenous factors and slow public spending subdued economic activity in the first half of 2003, but improved conditions and a small fiscal stimulus in the second half should support GDP growth of 6.3 percent for the year as a whole. All quantitative performance criteria (PCs) were met at end-June, but there was a subsequent lapse in respect of the PC on external nonconcessional debt, and there were delays in enacting key structural reform measures.
- **Letter of Intent and Memorandum of Economic and Financial Policies.** The authorities reaffirm their commitment to reach the objectives of the first-year program as regards fiscal policy, improved expenditure management, and the pursuit of structural reforms, notably those aiming at reducing risks to the medium-term fiscal stance. They request waivers for the nonobservance of one quantitative and two structural performance criteria, for which appropriate remedial actions have been taken.
- **Discussions.** In Dakar during October 1-10 and in Washington during October 23-30, the staff team met with the Minister of Finance and Economy; the Minister Delegate in charge of the Budget; the National Director of the Central Bank of West African States (BCEAO); and other senior officials. The team comprised Mrs. Schmitz (head), Mmes. Khemani (PDR) and Allard (FAD), and Messrs. D'Hoore, Josz, and Di Bella (all AFR). The team was assisted by Mr. Doré, the Fund's Resident Representative in Senegal.
- **Documentation.** The authorities have agreed to publish the staff report and the attached review documents. The principal authors of the report are Lelde Schmitz and Alain D'Hoore.

	Page
Executive Summary .....	4
I. Introduction.....	7
II. Recent Developments and Performance Under the Program in the First Half of 2003.....	8
III. Implementation of the Program in the Second Half of 2003 and Beyond .....	10
A. The Macroeconomic Situation in 2003 and Outlook for 2004 .....	11
B. Fiscal Policy, Management, and Reforms.....	11
C. Structural Reforms, Governance, and Statistical Issues.....	14
D. Monetary Policy .....	16
IV. External Sector Outlook, External Debt Management, and Capacity to Repay .....	17
V. Program Monitoring.....	19
VI. Staff Appraisal .....	20
 Boxes	
1. The Program's Main Objectives and Policies for 2003 .....	9
2. Revised Macroeconomic Scenario, 2002-04 .....	12
3. Structural Conditionality.....	20
 Figures	
1. Terms of Trade and Effective Exchange Rates.....	23
2. Main Economic Indicators, 1994-2005.....	24
 Tables	
1. Selected Economic and Financial Indicators, 2000-05 .....	25
2. Government Financial Operations, 2000-05 (In billions of CFA francs).....	26
3. Government Financial Operations, 2000-05 (In percent of GDP).....	27
4. Monetary Survey, 2000-05.....	28
5. Medium-Term Balance of Payments, 2000-05 .....	29
6. External Financing Requirements, 2000-05.....	30
7. Evolution of External Public Debt, 2000-05.....	31
8. Fund Position During the Period of the PRGF Arrangement, 2003-06.....	32
9. Schedule of Projected Reviews and Disbursements Under the PRGF Arrangements, 2003-06.....	33

Appendices

I.	Letter of Intent.....	34
	Attachment I: Memorandum of Economic and Financial Policies.....	36
	Annex I: Recruitment Strategy for the Civil Service, 2003-05.....	48
	Annex II: Technical Memorandum of Understanding.....	49
II.	Relations with the Fund.....	67
III.	IMF-World Bank Relations.....	73
IV.	Statistical Issues.....	78

## EXECUTIVE SUMMARY

### Recent developments and prospects

- **Economic activity in the first half of 2003 was weaker than envisaged under the program.** The impact of softer domestic demand, reflecting mainly the drop in rural incomes in 2002 and a slow pace of public spending in the first six months of the year, was compounded by a slowdown in the mining and chemical sectors.
- **The macroeconomic situation in the second half of 2003 and in 2004 appears favorable.** GDP growth is likely to have reached 6.3 percent in 2003, driven by a strong rebound in agriculture from a lower base in 2002, owing in part to favorable weather. For 2004, real GDP is projected to grow at about 6 percent. Consumer price inflation of 0.1 percent and 1.2 percent, respectively, in 2003 and 2004 would be below initial program projections. The external current account deficit is estimated to have widened to 6.6 percent of GDP in 2003, and would narrow again to 5.7 percent in 2004 with a dissipation of some adverse exogenous factors.

### Performance under the program in the first half of 2003

- **Macroeconomic policy performance in the first half of 2003 was in line with the program.** All quantitative performance criteria at end-June were met. **But the continuous quantitative performance criterion pertaining to the non-contracting of nonconcessional external debt was breached** in July 2003, as the state-owned electricity company, SENELEC, signed a nonconcessional external loan of CFAF 9 billion (US\$18 million) to expand its production capacity.
- **Major structural reform measures were enacted, albeit with delays.** In the electricity sector, the tender documents for granting a private Independent Power Producer (IPP) concession were finalized only in October and submitted to prequalified investors in November, thereby missing the end-June structural performance criterion (PC). Similarly, in the groundnut sector, there were delays in technical preparations for the tender for the privatization of SONACOS, which, initially scheduled for end-July 2003 as a PC, was completed only in January 2004. Also, the auditing of both past years' government accounts and SENELEC's mid-2003 accounts incurred delays (both structural benchmarks).
- Of the **two public enterprises monitored under the program**, SONACOS has been on target, whereas SENELEC has struggled with revenue collection and financial performance.

## Implementation of the program in the second half of 2003 and beyond

- **The fiscal stance and reforms have been adequate in 2003.** The target for the overall fiscal deficit (including grants) was widened to 1.9 percent of GDP from a revised 1.3 percent in 2002, and against an original program target of 1.3 percent of GDP. The target diverged from the initial program mainly because the authorities decided not to offset the costs of their drought-related emergency program in favor of rural areas (0.4 percent of GDP) by spending cuts in nonpriority areas, to achieve a small fiscal stimulus in the context of weaker-than-projected economic activity. As planned, draft laws simplifying business taxation (including investment incentives) have been introduced and a new medium-term hiring strategy for the civil service has been adopted.
- **The 2004 budget, implying an overall deficit of 2.5 percent of GDP, is consistent with the authorities' dual goals of higher spending on the PRSP priorities, while maintaining fiscal discipline.**
- **In reaction to SENELEC's new nonconcessional external debt, the government has tightened its control over the contraction of external debt by all public entities.**
- **On the structural front, notwithstanding delays, reforms remain on track.** SENELEC is carrying out an action plan to strengthen its operating performance. Following the privatization of SONACOS by mid-2004, the policy focus will shift to long-term sustainable development in the rural segment of the sector. Under the guidance of the Presidential Investors' Council, steps are being taken to improve the business environment and strengthen governance.

Senegal: Selected Economic and Financial Indicators, 2000-05

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
	(Annual percentage change)									
GDP at constant prices	5.6	5.6	2.4	1.1	6.6	6.3	5.6	6.0	5.8	5.8
Consumer prices (annual average)	0.7	3.0	2.2	2.3	2.0	0.1	1.8	1.2	2.0	2.0
Broad money (M2)	10.7	14.5	8.3	7.6	8.8	6.7	9.2	8.7	8.6	7.9
	(In percent of GDP)									
Overall fiscal surplus or deficit (-)										
Commitment basis, excluding grants	-2.0	-3.9	-1.6	-3.1	-4.0	-4.4	-3.7	-4.6	-3.5	-4.1
Commitment basis, including grants	0.1	-2.0	0.4	-1.3	-1.3	-1.9	-1.2	-2.5	-0.9	-1.4
External current account deficit (-)										
Excluding current official transfers	-8.5	-6.5	-6.3	-7.2	-7.6	-8.5	-6.7	-7.4	-6.6	-7.1
Including current official transfers	-6.3	-4.9	-4.7	-5.7	-5.6	-6.6	-5.0	-5.7	-5.0	-5.3

Sources: Senegalese authorities; and staff estimates and projections.  
1/ As in the April 14, 2003 Staff Report (Country Report No. 03/167).

## Issues highlighted in the staff appraisal

- While the fiscal stance is appropriate, **achieving the medium-term fiscal objective requires better management of budgetary resources spent via treasury**

**correspondent accounts, well-paced execution of capital spending plans, and unencumbered spending of HIPC resources.**

- **Important steps to increase transparency in the expenditure process were accomplished in 2003, but more reforms are needed**, and the authorities should take advantage of concerted donor support, including through technical assistance, to improve expenditure execution procedures and reporting, and strengthen public financial management practices.
- **The staff urges the authorities to ensure a successful outcome of the privatization of SONACOS**, which should prove pivotal to increasing efficiency and transparency in the groundnut sector. **They also need to press for stronger collection efforts by SENELEC and a closer monitoring of the company**, so as to forestall the unraveling of sector reforms and the imposition of a potential burden on the government budget.
- **In view of the corrective actions taken to end slippages in reform implementation and external debt management, as well as the government's adherence to prudent financial policies**, including in its 2004 budget, **the staff recommends that (i) waivers for the missed performance criteria be granted and the first review under the three-year PRGF arrangement be completed; and (ii) additional interim assistance under the enhanced HIPC Initiative be extended until April 30, 2004.**

## I. INTRODUCTION

1. The current three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) supports the government's economic program for January 2003-December 2005 (Country report No. 03/167).
2. In the attached letter dated January 26, 2004 and the accompanying memorandum of economic and financial policies (MEFP; Appendix I), **the authorities request the completion of the first review**, as well as waivers for the nonobservance of one quantitative and two structural performance criteria. In support of these requests, the MEFP reviews progress under the first-year program, describes remedial actions taken in respect of the missed performance criteria, and sets out policies for the remainder of 2003, as well as the fiscal stance for 2004. A disbursement of SDR 3.47 million is being requested, conditional on the completion of this review.<sup>1</sup> Senegal's reform policies benefit from steady support by the World Bank (see Appendix III), the African Development Bank (AfDB), the European Union (EU), and other development partners.
3. **The reasons for the 2½ month delay in the Executive Board consideration of this review report are twofold.** Extensive discussions, following a late start because of a cabinet reshuffle, were needed to integrate policy reforms into the 2004 budget framework and to arrive at satisfactory solutions to both the design of the new investment code and the process of privatizing the groundnut company, SONACOS. Furthermore, the implementation of several key reforms took more time than anticipated, in particular in the energy and groundnut sectors. When evaluating policy implementation in 2003, the staff report refers to the revised financial targets imbedded in the updated macroeconomic framework agreed upon at the time of the discussions in October 2003. Outturn data for end-2003 are not yet available.
4. **Senegal continues to enjoy a relatively stable political climate** and has remained largely unaffected by regional instability, including the conflict in Côte d'Ivoire. However, in the wake of the publication in July 2003 of a book fairly critical of President Wade's conduct of public affairs, special parliamentary committees were set up to investigate some of the book's specific allegations, and, in late August 2003, the President reshuffled his cabinet for the fifth time since his election in March 2000. Most ministers, including of Finance, however, kept their posts.

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<sup>1</sup> The authorities are also requesting interim assistance under the enhanced HIPC Initiative in the amount of SDR 1.066 million to cover repayment obligations through February-April 2004. The completion point is expected to be attained by end-March 2004.



## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM IN THE FIRST HALF OF 2003

5. **Economic activity in the first half of 2003 was weaker than envisaged under the program.** The impact of softer domestic demand, reflecting mainly the drop in rural incomes in 2002<sup>2</sup> and a slow pace of public spending in the first six months of the year, was compounded by a slowdown in the mining and chemical sectors, in the face of export price uncertainties stemming from the depreciation of the U.S. dollar against the CFA franc. Food shortages in early 2003 were only localized, as large imports mitigated the shortfall in domestic production and kept food prices in check. Declining import prices accounted for a small decrease in the consumer price index (0.2 percent at end-June 2003 on a 12-month basis, against a projected increase of about 2 percent). The temporarily unfavorable conditions for the private sector pushed up demand for bank credit (up 10 percent over June 2002), reflecting the deteriorating cash flow of some large enterprises, and led to a reduction in domestic financial savings balances. The stock of broad money at end-June was down by 1.3 percent from end-2002.

6. **The severe impact of the bad 2002 harvest on poor farmers' incomes and on the availability of seeds for the 2003/04 crop, particularly for groundnuts, as well as the subdued pace of economic activity, prompted the authorities to launch an emergency response in mid-2003 (see MEFP, para. 22).**

7. **Macroeconomic policy performance in the first half of 2003 was in line with the program,** and all quantitative performance criteria at end-June were met (see Appendix I, Attachment I, Annex II, Table 1), but a continuous quantitative performance criterion was breached in July 2003.<sup>3</sup> At end-June, the criteria on the basic fiscal balance,<sup>4</sup> excluding HIPC relief-related spending and outlays to cover the costs of structural reforms (hereafter, program

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<sup>2</sup> Revised data for 2002 point to a weather-induced sharper drop in agricultural output (of 32 percent) and weaker overall growth than originally estimated. Real GDP growth of 1.1 percent (down from an original estimate of 2.4 percent) was well below the trend rate of about 5 percent over 1995-2003. Updates have also revealed that a steeper than earlier estimated increase in external loan-financed capital spending by government provided some counterweight to the less buoyant primary sector. The higher capital outlays in 2002 translated into an overall fiscal deficit (excluding grants) of 3.1 percent of GDP (instead of 1.6 percent reported earlier) and an external current account deficit (including current official transfers) of 5.7 percent (compared with 4.7 percent).

<sup>3</sup> The electric utility, SENELEC, contracted a nonconcessional external loan from the regional West African Development Bank (BOAD), thereby breaching a continuous performance criterion. In response, the government recently issued new regulations to control more tightly the contracting of foreign debt by public enterprises and agencies. See para. 28 below and MEFP, para. 39.

<sup>4</sup> Defined as revenue minus total expenditure and net lending, excluding externally financial capital expenditure and on-lending.

definition) and on net bank credit to the government were met with comfortable margins. The basic fiscal balance (program definition) recorded a surplus equivalent to 2.2 percent of GDP. A small (0.3 percent of annual GDP) shortfall in tax revenue, reflecting negative developments in the tax base, was more than offset by a sluggish pace of domestically financed investment spending, and the slow spending, by local governments and specialized public agencies, of resources (received through central government transfers) in their correspondent accounts at the treasury. The latter also implied that the balances in these accounts exceeded the indicative aggregate ceilings of the program.

#### **Box 1. The Program's Main Objectives and Policies for 2003**

The first-year program's main objectives and targets are:

- real GDP growth of 6.6 percent, reflecting in part a rebound of agricultural output and sustained growth in industry and services;
- inflation remaining at about 2 percent;
- the overall fiscal balance, excluding grants, widening to a deficit of 4.0 percent of GDP from 1.6 percent in 2002, reflecting the implementation of the PRSP objectives of expanding social and infrastructure services, as well as additional HIPC Initiative-related spending and outlays for the temporary costs of structural reforms;
- the external current account deficit, including current official grants, increasing to 5.6 percent of GDP from 4.7 percent in 2002, reflecting PRSP-related investment spending.

On the structural front, the government intends to:

- strengthen public expenditure management, reporting, and control;
- enhance private participation in the electricity and groundnut sectors, consistent with medium-term sector policy papers adopted in early 2003; and
- accelerate the removal of administrative and regulatory impediments to private sector investment.

8. **The financial performance of the two enterprises monitored under the program was uneven.** At end-June 2003, the groundnut processing company, SONACOS, was on track to achieve its cash surplus objective for the year as a whole, as higher world prices for groundnut oil more than compensated for the sharply lower level of groundnut input available from farmers. By contrast, the electric utility, SENELEC, missed the indicative floor on its basic balance (of current operations), as revenue collection at midyear was below target. Nevertheless, the company managed to clear its outstanding arrears at end-June—a performance criterion—by securing bank credit and negotiating payment arrangements with

all its creditors and suppliers, and it successfully issued a five-year bond in the regional capital market. SENELEC's weaker financial performance also caused the outstanding guarantee deposits at commercial banks to exceed their indicative ceiling at end-June.

**9. Major structural reform measures were enacted, albeit with delays.**

Notwithstanding the government's commitment to the reform agendas outlined in Letters of Sector Policy,<sup>5</sup> various constraints have hindered progress in their implementation. In the electricity sector, the authorities only completed the tender documents for granting a private Independent Power Producer (IPP) concession in October 2003, and submitted them to prequalified investors in November,<sup>6</sup> thereby missing the respective end-June structural performance criterion (PC). Similarly, in the groundnut sector, delays in technical preparations for the tender for SONACOS, initially scheduled for end-July 2003 as a PC, led to its postponement to January 2004 (MEFP, para. 42).<sup>6</sup> Two of three structural benchmarks were not met on time. First, capacity constraints at the treasury and the Supreme Audit Court, compounded by the lack of agreed submission procedures, prevented the timely submission and processing of the backlog of budgetary and treasury accounts for the years 1999 to 2002. Second, SENELEC's auditors produced their report on the company's midyear accounts with a four-month delay. The authorities describe corrective actions in all these areas in the attached MEFP (see paras. 17-19, and 25-27).

**III. IMPLEMENTATION OF THE PROGRAM IN THE SECOND HALF OF 2003 AND BEYOND**

**10. The policy discussions confirmed that the authorities' policy stance for the remainder of 2003 and beyond is in line with the program's broad objectives.** With the imminent tax reform and an ongoing effort in tax administration, as well as systematic upgrading of reporting on spending and adherence to execution procedures, the authorities are making headway in strengthening the foundation of fiscal policy. These efforts are expected to yield greater transparency and better governance, which, together with the new recruitment and remuneration strategy in the civil service, target more efficient and effective public service delivery. The authorities reiterated their commitment to fiscal prudence, guided by a medium-term path that integrates a structural increase in spending on the poor, particularly in the rural areas, with flexibility in responding to economic circumstances as deemed necessary. The authorities' priority in structural reforms is to complete actions launched in the first part of 2003, in particular in the public enterprise sector.

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<sup>5</sup> For the energy and groundnut sectors, the postal system, and private sector development. In these areas, the World Bank has provided technical assistance in policy formulation and will offer financial support for implementation of reforms in the context of sector projects or policy-based lending.

<sup>6</sup> The issue of the tender became a prior action for the completion of the first review under the PRGF arrangement (Appendix I, Attachment I, Annex II, Table 3).

### A. Macroeconomic Situation in 2003 and Outlook for 2004

11. **The macroeconomic situation in 2003 and prospects for 2004 are favorable.** GDP growth is likely to have reached 6.3 percent in 2003, driven by a strong rebound in agriculture from a lower base in 2002, owing in part to favorable weather. Nonagricultural value-added, notwithstanding the observed pickup in the second half of 2003, would have remained somewhat below earlier projections. For 2004, real GDP is projected to grow at about 6 percent, with a continued recovery in agricultural output, higher construction and public works activity, and sustained growth in chemical production. Consumer price inflation of 0.1 percent and 1.2 percent, respectively, in 2003 and 2004 would be below initial program projections. The external current account deficit is estimated to have temporarily widened to 6.6 percent of GDP in 2003, and is projected to narrow again to 5.7 percent in 2004 with a dissipation of some adverse factors.

### B. Fiscal Policy, Management, and Reforms

12. **Fiscal performance was expected to remain adequate throughout 2003.** The overall fiscal deficit, including (resp. excluding) grants, has been targeted to widen to 1.9 percent of GDP (resp. 4.4 percent), from a revised 1.3 percent in 2002 (resp. 3.1 percent), and against an original program target of 1.3 percent of GDP (resp. 4.0 percent).<sup>7</sup> Similarly, for the basic fiscal balance (program definition), a surplus target of 1.0 percent of GDP has been set, marginally below the initial program target of 1.5 percent of GDP. As envisaged under the original program, the deficit is assumed to be covered by external funding.

13. **The modest widening of both fiscal deficit measures reflects the interplay of several factors (Box 2 and MEFP, paras. 20-22), but diverges from the program mainly because the authorities decided not to offset the costs of their emergency program in favor of rural areas (about 0.4 percent of GDP) by spending cuts in nonpriority areas, to achieve a small fiscal stimulus in the context of a weaker-than-projected economy.** A supplementary budget in August 2003 authorized the emergency rural program<sup>8</sup> and, in addition, accelerated spending of accumulated resources in the government's HIPC Initiative

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<sup>7</sup> Preliminary fiscal data through September 2003 suggest that (i) the revised end-year revenue target remained within reach, and (ii) expenditure execution has picked up, whereas the spending from correspondent accounts and allocated HIPC resources has fallen short of projections.

<sup>8</sup> By November 2003, the emergency rural program (CFAF 15 billion) had resulted in the distribution of rice (CFAF 8 billion) and animal feed (CFAF 1.3 billion) to poor farmers, as well as subsidies (CFAF 3.5 billion) for giving 20,000 tons of groundnut seeds to farmers who otherwise would not have been able to plant for the 2003/04 season. In addition, CFAF 1.4 billion was spent on transportation and CFAF 0.4 billion on medicine supplies.

**Box 2. Revised Macroeconomic Scenario, 2002-04**

	2002		2003		2004	
	Est.	Rev.	Prog.	Rev. Prog.	Prog.	Proj.
(Annual percentage growth)						
<b>Output and prices</b>						
GDP at constant prices	2.4	1.1	6.6	6.3	5.6	6.0
Agriculture	-21.2	-32.2	18.0	36.3	5.0	11.6
Nonagriculture	5.0	4.7	5.7	4.2	5.6	5.4
Export prices	-2.3	-1.1	1.9	0.5	1.7	-0.6
Import prices	-0.1	-0.8	0.0	-1.5	0.2	-0.8
Consumer prices	2.2	2.3	2.0	0.1	1.8	1.2
GDP deflator	2.6	2.7	2.5	0.9	2.2	1.4
(In percent of GDP)						
<b>Total revenue and grants</b>	20.6	20.7	21.5	21.7	21.3	21.4
Revision				0.2		0.1
<b>Tax revenue</b>	17.7	17.9	18.0	18.3	18.1	18.5
Revision				0.3		0.4
<b>Total expenditure and net lending</b>	20.2	22.0	22.8	23.6	22.5	23.9
Revision				0.8		1.4
Effect of change in GDP (denominator)				0.7		1.1
Discretionary changes in nominal spending plans				0.1		0.3
<i>Of which:</i> additional HIPC spending				0.2		
costs of structural reforms				-0.4		
drought-related spending				0.4		
<b>Fiscal balances</b>						
Overall fiscal surplus or deficit, including grants	0.4	-1.3	-1.3	-1.9	-1.2	-2.5
Basic balance 1/	2.2	1.9	0.3	0.0	0.7	-0.1
Basic balance, excl. temp. costs of str. reforms and HIPC spending	2.5	2.1	1.5	1.0	1.7	1.3
<b>External current account deficit, incl. current official transfers</b>	-4.7	-5.7	-5.6	-6.6	-5.0	-5.7

Sources: Senegalese authorities; and staff estimates and projections.

1/ Defined as revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.

account (equivalent to 1.2 percent of GDP).<sup>9</sup> This additional spending, three-fourths of which is likely to have been executed by the end of 2003, is being offset by the postponement to

<sup>9</sup> The initial fiscal program for 2003 had made provisions for additional HIPC-related spending (of 0.6 percent of GDP or CFAF 25 billion), to be authorized in a supplementary budget in mid-2003.

early 2004 of outlays for the temporary costs of structural reforms, in particular, the recapitalization of the postal financial services unit and of the pension agency.<sup>10</sup> Thus, these changes in spending plans altogether increase outlays by no more than 0.2 percent of GDP relative to the original program (Box 2).

14. **Milestones on the path to stronger expenditure management are being passed** (Country report No. 03/167, MEFP, Annex I; and the current MEFP, para. 24), with (i) the government refraining from using exceptional budget execution procedures; (ii) the computerization and integration of budget systems; (iii) the production of monthly treasury accounts; (iv) an action plan for financial accountability being prepared in collaboration with development partners; and (v) a Report on the Observance of Standards and Codes (ROSC) on fiscal transparency scheduled for late 2004.

15. **The authorities have made good progress in defining the main parameters of their recruitment strategy for 2003-05.** Their net recruitment target over three years has been set at 15,000 new civil servants, and the phasing is geared to respect medium-term wage bill targets set under the program, while leaving room for future moderate wage adjustments (see MEFP, paras. 31-33 and Annex ). Total staffing in the civil service would thus increase from about 67,000 at end-2002 to 82,000 by the end of 2005. Priority social sectors (education and health), security (army and police), finance, and justice should receive the bulk of the new recruitment. For the remainder, the authorities have pointed out that the severe personnel shortages throughout the administration, after about ten years of an overall net hiring freeze, call for allocations of new staff (about 17 percent of total new recruitment) to several other departments, including general administration and economic services, such as agriculture, energy, and infrastructure.

16. **As regards civil service wages, the authorities have launched a review of compensation policy that should yield recommendations for reforms in the second half of 2004.** The review is expected to recommend structural changes to the civil service pay regime, particularly the complex benefits system. The reform's financial parameters would be set in a manner consistent with the program's objectives; in the meantime, wages will remain unchanged.

17. **The authorities have submitted legislation for appropriate business tax reforms to parliament in early January 2004.** The agenda focuses on simplifying the administration of corporate income taxation (CIT), and reducing its effective rate, while broadening the tax base.<sup>11</sup> The revenue incidence of these measures is expected to be small in the short term and

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<sup>10</sup> While the pace and scope of most of these reforms are unchanged from initial program assumptions, the sequencing of measures that imply budgetary outlays has been somewhat different from earlier tentative projections by World Bank staff.

<sup>11</sup> For modern sector enterprises, the CIT will be streamlined, in accordance with recommendations of a tax reform task force under the Presidential Investors' Council, and the statutory rate will be lowered to 33 percent

positive in the long term. These changes are complemented by a new, streamlined Investment Code, which offers tax preferences to priority industries (MEFP, paras. 29-30) in a manner that its overall impact on tax revenue is likely to remain unchanged from the previous code.

18. **The 2004 budget, approved by parliament on December 12, is consistent with the authorities' dual goals of expanding spending on the PRSP priorities, while maintaining fiscal discipline** (see MEFP, paras. 46-47).<sup>12</sup> The surplus of the basic fiscal balance (program definition) would slightly increase to 1.3 percent of GDP from a projected 1.0 percent in 2003.<sup>13</sup> The overall deficit, including grants, would widen to 2.5 percent of GDP from 1.9 percent in 2003, mainly because of the postponement to early 2004 of spending to cover the temporary costs of structural reforms, estimated at about 0.7 percent of GDP.<sup>14</sup> Small gains from tax and customs administration and the tax reform would slightly raise the tax revenue ratio.<sup>15</sup> The growth of current spending would be contained below that of nominal GDP, while capital expenditures, both domestically and foreign financed, would expand as envisaged in the PRSP. The government has identified a small financing gap (CFAF 1.9 billion) that it expects to fill with additional budgetary grants. The proposed stance would allow the government to reduce its indebtedness toward the domestic banking system, and to finance the overall deficit with concessional loans and grants, while continuing to reduce its external indebtedness in relation to GDP.

### C. Structural Reforms, Governance, and Statistical Issues

19. **Notwithstanding delays, reforms in the electricity sector are being implemented according to the government's Letter of Sector Policy.** The IPP concession to be granted

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from 35 percent, together with a restructuring of provisions for investment deduction, in order to achieve some revenue neutral reduction in the effective rate of the CIT. For small businesses, a new synthetic tax will subsume the value-added tax, the CIT, and other taxes—thereby simplifying the regime and broadening the base (MEFP, para. 28).

<sup>12</sup> For monitoring purposes of the program, the authorities and Fund staff have informal understandings on preliminary quarterly quantitative indicators for March and June 2004. Final indicators and criteria will be set in the context of the second review under the PRGF arrangement.

<sup>13</sup> At 1.3 percent of GDP, the surplus would be slightly lower than the initial program target of 1.7 percent of GDP, reflecting mainly higher interest obligations.

<sup>14</sup> This amount will be firmed up in the context of the second review under the PRGF arrangement, when more precise estimates should be possible. As of now, projected costs refer to (i) recapitalizing the postal system, and (ii) covering contribution arrears to the private sector pension agency from public agencies or liquidated public enterprises. Provisions for costs related to the privatization of SONACOS during 2004 would be included in a likely supplementary budget, as would be privatization proceeds from the sale of company's assets.

<sup>15</sup> The recent extension of the single taxpayer identification number to all taxes is particularly important in this regard.

in early 2004 is a first step toward harnessing private investment for the needed expansion of energy generation (to meet annual demand growth of over 8 percent), with SENELEC expected to focus on upgrading and expanding transmission and distribution. Concurrently, SENELEC is carrying out an action plan to strengthen its operating performance. SENELEC should face less short-term vulnerabilities (in particular cash-flow problems) in 2004, as it has secured long-term financing for its emergency investment program. The authorities are determined to enforce hard budget constraints and push for a strong operating record that would position SENELEC well for privatization in the competitive world energy market.

20. **Following the privatization of SONACOS intended by mid-2004, the policy focus will shift to long-term sustainable development in the rural segment of the sector.** State involvement will be limited to supporting mainly varietal research and infrastructural development for farmers, and to ensuring that competitive conditions prevail. In this regard, the authorities intend to eliminate, by March 2004, the import protection enjoyed by SONACOS in its vegetable oil refining business, whose annual cost to consumers is estimated at about CFAF 10 billion (about 0.2 percent of GDP). The sector strategy is supported by donors, including the World Bank and the European Union.

21. **Technical preparations for reforms in other sectors are on track.** These include, inter alia, the postal system and the business environment:

- The planned separation of the financial services unit from the **postal company** and conversion into an autonomous entity, subject to banking supervision, should be effected in early 2004. Cross-debts between the postal service and the treasury have been inventoried and will be cleared, together with the proposed recapitalization of the former, at a budgetary cost of about CFAF 15 billion. Draft statutes for the postal bank, and an operational plan should be submitted to the regulators (the Banking Commission and BCEAO) by April 2004.
- Discussions between the authorities and members of the Presidential Investors' Council (PIC) have yielded many recommendations for improving the **business environment**. The PIC task forces examined issues concerning the regulation of private investment, including "red tape" in business registration; labor regulations (such as piece-rate compensation and work schedule); taxation; and the problems of traffic congestion in Dakar. Recommendations that did not require significant legislative rewriting or additional technical work, such as those related to registration procedures or tax administration, were adopted by executive decrees, while others relating to business taxation were included in the tax reform package. Labor Code proposals are being examined by government, for implementation in early 2004. Finally, in November 2003 parliament passed legislation for the creation



of a National Anticorruption Committee,<sup>16</sup> and it is expected to consider a draft law regulating public-private partnership in infrastructure services.<sup>17</sup> The recommendations are in line with the spirit of the authorities' Letter of Private Sector Development Policy, which will be supported by a policy loan from the World Bank, starting in 2004.

22. As regards **statistical issues**, the authorities published their revised preliminary set of national accounts (NA) for 1995-2000 in March 2003, and are close to finishing the setting-up of a new autonomous Statistical Institute that would take over the production and dissemination of economic statistics from the Ministry of Finance. The application of the new national accounts methodology revealed the need for a more detailed reconciliation of data on the external accounts from different sources, now being done by a multi-institutional task force. New NA estimates, incorporating the task force findings, are expected to be formally adopted in early 2004. Ongoing public expenditure management reforms should permit improved coverage, periodicity, and quality of government financial statistics (see para 14). The staff also discussed with the national branch of the BCEAO the need for increasing the periodicity of its balance of payments estimates, with which the BCEAO agrees. It plans to start producing quarterly balance of payments estimates in the course of 2004.

#### **D. Monetary Policy**

23. **The macroeconomic framework, as revised in the discussions with the authorities in October 2003, assumed that monetary developments through end-2003 would reflect the less favorable than initially assumed economic circumstances.**<sup>18</sup> Money growth was projected to recover somewhat in the second half of the year to reach 6.7 percent by end-2003, but to stay below nominal GDP growth, in light of the severe income constraints among rural households during a large part of the year. Government recourse to net banking credit would be marginal. Growth in credit to the economy would be sustained, at a slightly lower pace, in the second half of the year (implying an expansion of about 9 percent by year's end), in light of the easing of monetary conditions by the regional central bank, the BCEAO, which lowered its monetary policy rates by a cumulative total of 150 basis points, starting in July 2003. The Senegalese authorities and staff welcomed this alignment

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<sup>16</sup> This autonomous administrative body, consisting of ten members from government institutions, business associations, and civil society, will be charged with (i) identifying the structural causes of corruption, (ii) proposing solutions, and (iii) receiving and processing complaints about acts of corruption or attempted corruption. The law reflects the work of the PIC, as well as consultation with civil society, political parties, and the President of Senegal.

<sup>17</sup> The legislation, developed in cooperation with the World Bank, defines procedures for awarding concessions for BOOTs (build, own, operate, transfer) and BOOs (build, own, operate) contracts.

<sup>18</sup> End-year monetary and balance of payments data are not yet available.

with international conditions and thought that it should provide an additional lift to the economy, while remaining consistent with Senegal's goal of contributing to the gross reserves of the monetary zone.

24. **Senegal returned to the regional market for short-term government paper in September 2003.** The authorities collected CFAF 23 billion (about 0.6 percent of GDP) by issuing a composite 6-12-month<sup>19</sup> treasury bill that was vastly oversubscribed; they obtained a rate of 3.3 percent, the lowest for such an issue in the region. Over the medium term, the authorities intend to issue treasury bills with a view to supporting financial market development, rather than because of domestic financing needs. They are also considering broadening the range of maturities at future issues, and intend to fine-tune their strategy in consultation with Fund staff.

#### IV. EXTERNAL SECTOR OUTLOOK, EXTERNAL DEBT MANAGEMENT, AND CAPACITY TO REPAY

25. **The current account deficit (including current official transfers) is projected to have widened to 6.6 percent of GDP in 2003,** from a revised 5.7 percent in 2002, owing to poorer export performance on chemical and groundnut products, and a temporary increase in food imports in the context of the poor 2002 crop.<sup>20</sup> Tourism receipts and private transfers are projected to have been weaker than in 2002, reflecting low growth in European Union economies (the main origin of both flows). Projected net official capital flows would have been significantly lower than in 2002, mainly because of the postponement to 2004 of disbursements of budget support loans by the World Bank and African Development Bank.<sup>21</sup> Despite strong growth in direct investment, net private financial inflows are likely to have fallen relative to 2002, as the effect of the Euro changeover was temporary. As a result of these developments, the overall balance is projected to have recorded a deficit of CFAF 33 billion, compared with a surplus of CFAF 92 billion in 2002. Exceptional financing of about CFAF 40 billion, mostly debt relief from bilateral and multilateral creditors, together with a

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<sup>19</sup> The notes are issued with a 50 percent repayment provision at six months, and the remainder at one year.

<sup>20</sup> The weakness in overall export performance and the favorable impact of a lower dollar on imports are partially masked by a rise in one-off imports for reexports (some of which in 2004), and a replenishment, through imports, of petroleum products inventories. These temporary factors also contributed to a temporary deterioration of the current account, which should be reversed in 2004.

<sup>21</sup> World Bank Board presentation of a Private Sector Adjustment Credit and related cofinancing from the AfDB, have been deferred because of the delay in the privatization process of SONACOS. The AfDB approved the lending operation in December, but, for administrative reasons, the first disbursement is only possible in January 2004.

decline in net foreign assets of commercial banks,<sup>22</sup> should have allowed the central bank to keep gross reserves at 3.2 months of imports at end-2003.

26. **The external outlook for 2004 and 2005 should improve markedly.** The current account (including current official transfers), is expected to narrow to about 5½ percent of GDP. The temporary factors that accounted for the poor export performance in 2003 and higher imports (in particular those of food, petroleum products, and items for reexport) should reverse themselves as of 2004. Net private financial flows are projected to be in line with developments in 2003. Official flows should increase moderately, along the program's initial trajectory, notwithstanding a bunching of disbursements in 2004. Debt-service obligations, based on recently updated records, would exceed earlier estimates, with the increments being offset by projected higher relief. The overall balance would strengthen, while the large expected amount of relief would allow the central bank to accumulate about CFAF 40 billion in gross reserves, thereby increasing the reserve coverage of imports to 3.5 months.

27. **The authorities expected to comply with all the triggers set forth in the decision point document ([www.imf.org](http://www.imf.org)) under the enhanced HIPC Initiative so as to achieve the completion point in early 2004.** Efforts are under way to address problems in the health sector, and to complete the rest of the privatization agenda. In addition, the authorities have collaborated with the staffs of the Fund and the World Bank to verify the accuracy of their external debt statistics and to update an external debt sustainability analysis. The preliminary analysis—whose final results will be presented in the forthcoming completion point paper—indicates that the pursuit of sound macroeconomic policies, sustained economic growth, and a prudent borrowing strategy should allow Senegal to sharply curtail its external indebtedness over the medium term, and achieve external debt sustainability.

28. **The authorities have reaffirmed that achieving their objective of external debt sustainability hinges on adherence to both a sound borrowing strategy and solid debt management.** They acknowledged that the contracting by SENELEC of a nonconcessional foreign loan—regardless of the intrinsic merits of the usage to which the loan is being put<sup>23</sup>—revealed a weakness in the strict enforcement of the government's external debt policy, especially as it applied to public agencies and enterprises outside the immediate purview of the treasury. To correct this problem, the Prime Minister's Office has enacted an executive order that requires all public agencies and enterprises to seek the prior authorization of the Ministry of Finance before contracting foreign loans. For the medium

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<sup>22</sup> In 2002 conversion of foreign currency bills boosted commercial banks foreign assets, some of which resulted in excessive open foreign positions. In early 2003, the BCEAO insisted that banks bring these positions back within the required limits.

<sup>23</sup> As noted in the MEFP, para. 38, the authorities consider that the specific project financed with this loan was urgent, sound, and viable, and should contribute to improving the company's overall performance.

term, the authorities consider that a general limitation on nonconcessional external financing would be appropriate, with some well-delineated exceptions for borrowing within the monetary union.

29. **Senegal is expected to be able to meet its repayment obligations to the Fund.** The country's outstanding obligations to the Fund were SDR 161.3 million at end-December 2003 and will fall to about SDR 105 million at the expiration of the current arrangement (equivalent to about 5 percent of the projected stock of external debt at that time). The debt-service ratio is projected to reach 8 percent of exports by 2005, of which about one-fourth would constitute service to the Fund.

## V. PROGRAM MONITORING

30. **Program implementation in 2003 is monitored with quarterly quantitative indicators and semiannual performance criteria through end-December 2003.**

Notwithstanding the unchanged macroeconomic policy objectives, the integration of the fiscal stimulus into the program framework would have required a change from the initial program (Country report No. 03/167) in two quantitative performance criteria (as well as some indicative targets) relating to the fiscal stance and its domestic bank financing. In light of the time needed for concluding discussions for the review of the program and for completing the prior actions, these adjustments were not possible, but the staff would support the respective waivers should they be needed in the context of the second review of the program.<sup>24</sup>

31. No new structural performance criterion was deemed necessary to monitor program developments through end-2003. However, compliance with the two breached structural performance criteria (the issuance of tenders for the IPP and the privatization of SONACOS, respectively) was set as a prior condition for the completion of this review, and the authorities have now met this condition. Further progress under the program will be assessed in the context of the second review, which will establish quarterly performance indicators, as well as structural benchmarks and performance criteria for 2004, and will focus on the implementation of reforms in public expenditure management and the postal sector.

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<sup>24</sup> The table for the monitoring of the quantitative performance under the program (Appendix I, Attachment I, Annex II, Table 1) has been expanded to contain updated projections for December 2003.

### Box 3. Structural Conditionality

**Status of structural conditionality in the program for 2003.** The focus is on (i) governance and transparency of public expenditure management, and (ii) reforms in the parastatal sector in areas of critical macroeconomic relevance (impediments to growth and/or poverty reduction), where insufficient progress was achieved under the previous program. These reforms have been developed in close collaboration with World Bank staff. *Prior actions* were (i) the adoption of three remaining West African Economic and Monetary Union directives on expenditure management, and (ii) the publication of a Letter of Energy Sector Policy. The second and third *performance criteria* were met only with a delay: (i) the publication on an experimental basis of monthly treasury accounts, (ii) the issuance of a tender for an Independent Power Producer (IPP) concession, and (iii) the privatization of the groundnut processing company (SONACOS). Of the *three structural benchmarks* in the areas of public expenditure and economic statistics, which aim at improving transparency, one was met on time, a second one with a delay of several months, and a third one requires rescheduling because of severe capacity constraints (Appendix I, Annex II, Table 3).

**Structural areas covered by World Bank lending and conditionality.** The World Bank's new Country Assistance Strategy for the fiscal years 2003-05 does not envisage conditionality in the program's reform areas for 2003. Nonetheless, the World Bank has taken the lead in supporting technical and policy work, including through technical assistance and investment lending, for electricity and groundnut sector reforms, and for the postal and pension systems. Bank and Fund staffs also coordinate their approach on reforms in the areas of public expenditure management and business taxation.

**Other relevant structural areas not included in the current program.** Additional conditionality could cover (i) fiscal transparency, in light of progress in implementing agreed-upon reforms; (ii) the President's Large Infrastructure Projects; (iii) external debt management, once the authorities have developed an action plan with experts from AFRITAC and Debt Relief International (DRI); and (iv) possible measures to strengthen regulation and supervision, and support the development of the financial sector, based on findings of a Developmental FSAP mission in 2004.

## VI. STAFF APPRAISAL

32. **Senegal appears to have successfully absorbed a large exogenous shock to its economy, and has regained its growth trajectory.** While the recent volatility in agricultural output illustrates the sensitivity of the rural economy to weather shocks, overall growth performance in 2003 shows that the economy has achieved a moderate degree of diversification that allows for easier absorption of these and other shocks. The staff commends the authorities for a measured response to the problems created by the low crop outturn in 2002 and 2003, and for sustaining sound financial policies throughout. It also urges the authorities to pursue efforts to better measure the incidence of these shocks, and the effectiveness of emergency programs, particularly to ensure proper targeting.

33. **However, there were some slippages with respect to important aspects of the program in 2003.** While all quantitative performance criteria were observed by midyear, one continuous quantitative criterion was breached in July, and two structural performance criteria were met with a delay because of only slow progress with some key sectoral reforms. More generally, implementation of structural reforms in 2003 has often been hindered by lack of vigor, but it has also been challenged by technical hurdles and capacity constraints, which the government has been seeking to overcome, also with help from its development partners.

34. **While the fiscal stance in the first half of 2003 was excessively tight, it is deemed appropriate for the year as a whole.** Revenue performance through late 2003 has been sound, despite the small nominal shortfall, and reflects the broadening of the base through improved tax and customs administration, including the extension of the single taxpayer identification number to all taxes. While the staff recognizes the authorities' achievements in keeping spending within budget envelopes, a more steady and flexible execution of annual spending plans would support macroeconomic stability and efficiency. Achieving this objective would, inter alia, require better management of budgetary resources spent via treasury correspondent accounts, well-paced execution of capital spending plans, and unencumbered spending of HIPC resources. The staff agrees with the introduction of a small fiscal stimulus in the second half of 2003, in view of the weaker economic activity and well-targeted incremental spending.

35. **Important steps to increase transparency in the expenditure process were accomplished in 2003, but more reforms are needed, and the authorities should take advantage of concerted donor support, including through technical assistance.** Building upon recently improved expenditure execution procedures and reporting, the authorities should proceed with strengthening public financial management practices along the lines proposed in a recent comprehensive diagnosis by the World Bank. The upcoming Report on the Observance of Standards and Codes (ROSC) on fiscal transparency should usefully complement this diagnosis. Similarly, the recent request for capacity expansion via donor assistance at the Supreme Audit Court should ensure that the backlog of several years of budgetary and treasury accounts is fully audited in 2004.

36. **As envisaged under the program, the authorities have defined a well-dimensioned medium-term recruitment strategy for the civil service and will implement, with the 2004 budget, an appropriate overall business tax reform.** Decisions on compensation reform have been deferred to later in 2004, following a thorough review of the current system.

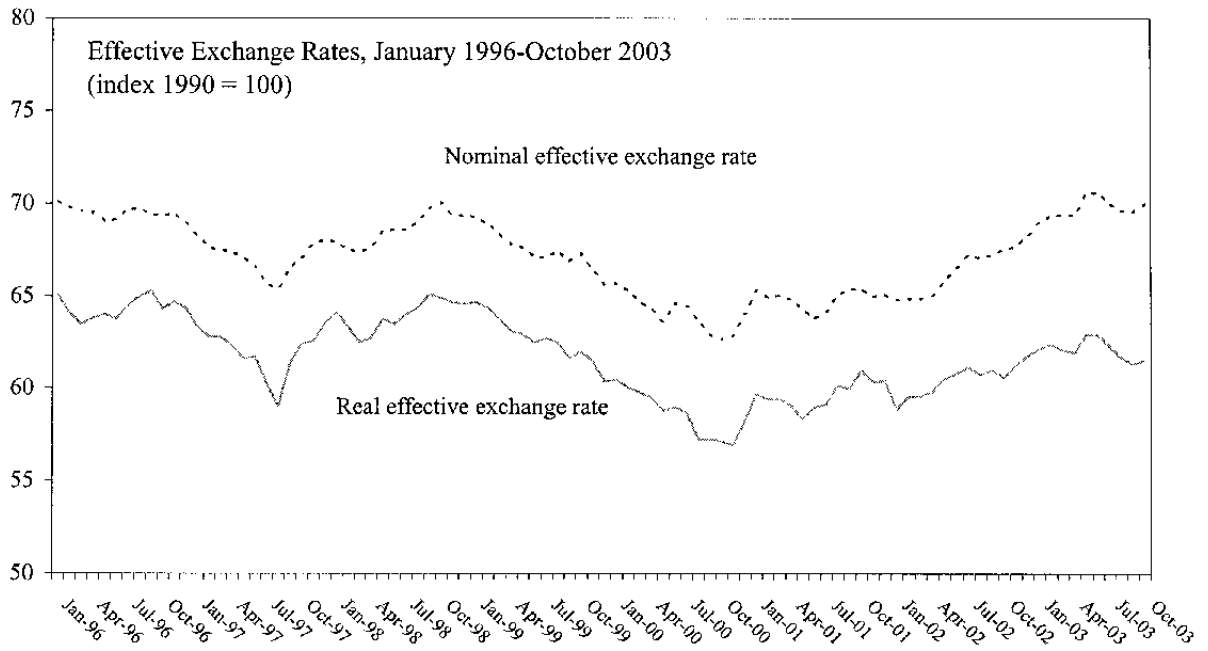
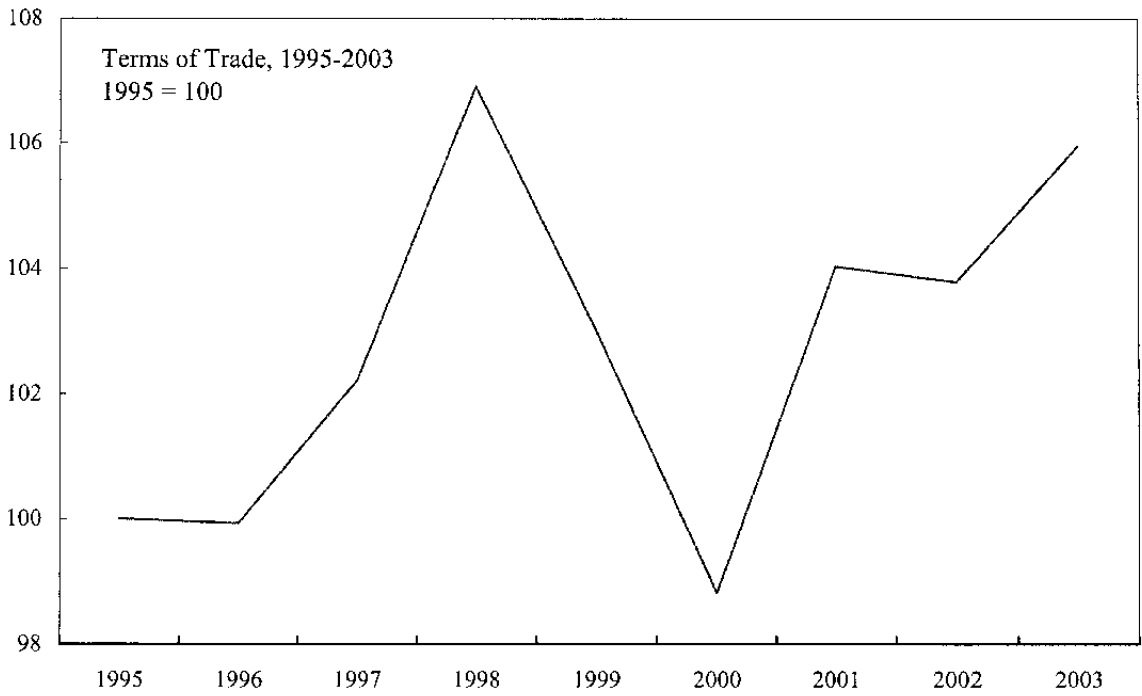
37. **As planned, the government has reconciled successfully treasury cash management with its presence in the regional paper market.** The terms obtained for the treasury bill issue in September 2003 suggest a favorable perception of Senegal's macroeconomic policy and management, and augur well for future efforts at supporting capital market development in the region. The authorities recognize that, before embarking on a broader recourse to this source of financing, they need to strengthen the government's debt-management capacity. The recent tightening of control over the contraction of external public debt was an urgently needed step in this direction.

38. **The staff welcomes long-overdue reforms in the electricity and groundnut sectors,** notwithstanding disappointing delays. The authorities are urged to ensure a successful outcome of the privatization of SONACOS, which should prove pivotal to increasing efficiency and transparency in the groundnut sector. While the granting of an IPP concession signals the authorities' resolve to move ahead with electricity sector reforms, they

need to press for stronger collection efforts by SENELEC and a closer monitoring of the company, so as to forestall the unraveling of sector reforms and the imposition of a potential burden on the government budget.

39. In view of the corrective actions taken to address slippages in reform implementation and external debt management, as well as the government's adherence to prudent financial policies, including in its 2004 budget, the staff recommends (i) that waivers for the missed performance criteria be granted and the first review under the three-year PRGF arrangement be concluded; and (ii) the extension of additional interim assistance under the enhanced HIPC Initiative until April 30, 2004.

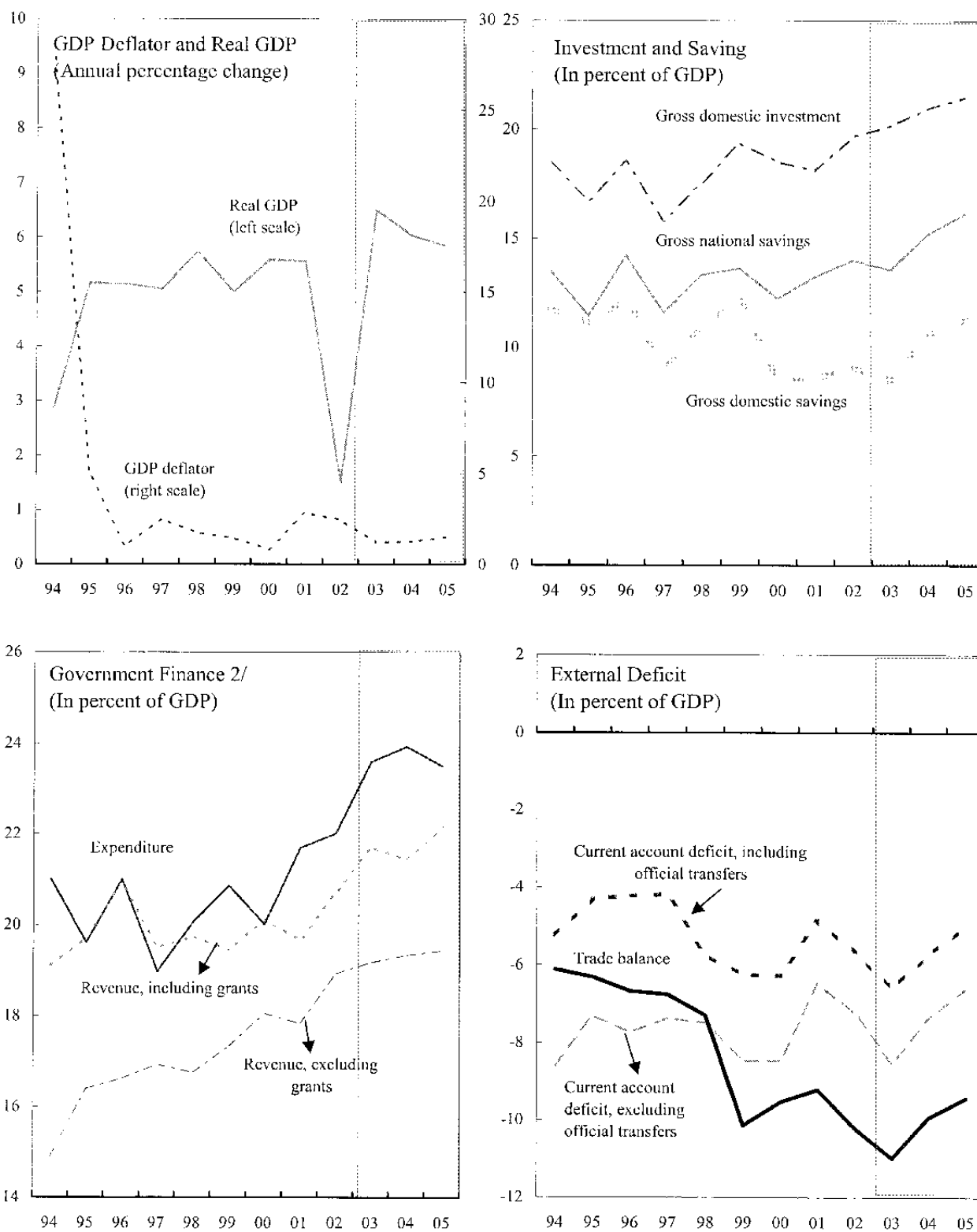
Figure 1. Senegal: Terms of Trade and Effective Exchange Rates



Sources: Senegalese authorities; IMF, Information Notice System; and staff estimates and projections.



Figure 2. Senegal: Main Economic Indicators, 1994-2005 1/



Sources: Senegalese authorities; and staff estimates and projections.

1/ 2003-05 data are projections during the program period.

2/ Central government on a commitment basis.

Table 1. Senegal: Selected Economic and Financial Indicators, 2000-05

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
(Annual percentage change, unless otherwise indicated)										
National income and prices										
GDP at constant prices	5.6	5.6	2.4	1.1	6.6	6.3	5.6	6.0	5.8	5.8
<i>Of which</i> : nonagriculture GDP	4.2	4.7	5.0	4.7	5.7	4.2	5.6	5.4	5.9	5.8
GDP deflator	0.8	2.8	2.6	2.7	2.5	0.9	2.2	1.4	2.0	1.5
Consumer prices										
Annual average	0.7	3.0	2.2	2.3	2.0	0.1	1.8	1.2	2.0	2.0
End of period	1.3	3.9	0.5	1.5	2.0	0.2	1.8	1.2	2.0	2.0
External sector										
Exports, f.o.b. (in CFA francs)	1.5	12.3	4.1	3.1	1.6	0.8	8.2	2.2	6.3	8.1
Imports, f.o.b. (in CFA francs)	12.6	10.0	3.7	6.7	7.8	5.6	4.9	0.5	6.4	6.9
Export volume	-5.2	10.7	6.6	3.8	-0.5	-0.1	6.3	2.7	5.1	8.9
Import volume	1.6	13.4	3.8	7.6	7.8	7.2	4.6	1.4	5.2	5.6
Terms of trade (deterioration -)	-3.7	5.3	-2.2	-0.2	1.9	2.1	1.5	0.3	-0.2	-1.9
Nominal effective exchange rate	-5.1	1.2	4.9	4.9	...	...	...	...	...	...
Real effective exchange rate	-6.5	1.9	2.9	2.9	...	...	...	...	...	...
(Changes in percent of beginning-of-year broad money, unless otherwise indicated)										
Money and credit										
Net domestic assets	12.8	4.3	-3.9	-6.4	5.7	5.2	2.6	2.1	4.3	4.9
Domestic credit	15.5	6.6	-4.8	-4.9	6.4	6.9	3.3	3.4	5.0	5.8
Credit to the government (net)	-4.0	2.7	-8.2	-8.3	-0.3	0.7	-3.6	-2.7	-2.2	-0.6
Credit to the economy (percentage growth)	28.6	4.9	4.7	4.7	9.5	8.8	9.8	8.5	10.1	8.8
Broad money (M2)	10.7	14.5	8.3	7.6	8.8	6.7	9.2	8.7	8.6	7.9
Velocity (M2/GDP; end of period)	3.9	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Interest rates (end of period; in percent)										
Discount rate	6.50	6.50	6.50	6.50	...	...	...	...	...	...
Money market rate	4.95	4.95	4.95	4.95	...	...	...	...	...	...
(In percent of GDP)										
Government financial operations										
Revenue	18.1	17.8	18.6	18.9	18.8	19.2	18.8	19.3	19.0	19.4
Grants	2.1	1.8	2.0	1.8	2.7	2.5	2.5	2.1	2.6	2.7
Total expenditure and net lending 2/	20.0	21.7	20.2	22.0	22.8	23.6	22.5	23.9	22.4	23.5
Overall fiscal surplus or deficit (-) 3/										
Commitment basis, excluding grants	-2.0	-3.9	-1.6	-3.1	-4.0	-4.4	-3.7	-4.6	-3.5	-4.1
Commitment basis, including grants	0.1	-2.0	0.4	-1.3	-1.3	-1.9	-1.2	-2.5	-0.9	-1.4
Basic fiscal balance 4/	1.2	-0.8	2.2	1.9	0.3	0.0	0.7	-0.1	0.7	0.2
Gross domestic investment	18.5	18.1	18.4	19.7	20.2	20.2	20.9	20.9	21.0	21.5
Gross domestic savings	8.6	8.6	9.1	9.1	9.7	8.5	11.3	10.5	11.6	11.3
Gross national savings	12.3	13.3	13.7	14.0	14.6	13.6	15.8	15.2	16.1	16.1
External current account deficit (-)										
Excluding current official transfers	-8.5	-6.5	-6.3	-7.2	-7.6	-8.5	-6.7	-7.4	-6.6	-7.1
Including current official transfers	-6.3	-4.9	-4.7	-5.7	-5.6	-6.6	-5.0	-5.7	-5.0	-5.3
Domestic public debt	8.7	9.8	7.6	7.7	7.0	7.2	6.2	6.4	5.7	6.0
External public debt 5/	69.3	65.2	63.0	64.9	45.9	58.8	44.7	46.4	42.8	44.9
(In percent of exports of goods and nonfactor services, unless otherwise indicated)										
External public debt service 6/	12.5	9.3	9.2	9.6	8.8	8.4	7.9	9.1	7.3	8.3
In percent of government revenue	20.7	15.8	14.8	15.2	13.1	12.4	11.7	12.8	10.5	11.6
GDP at current market prices (in billions of CFA francs)	3,114	3,380	3,550	3,511	3,881	3,762	4,188	4,041	4,520	4,340

Sources: Senegalese authorities; and staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ Includes foreign-financed capital expenditure.

3/ Includes additional expenditures linked to the HIPC Initiative interim assistance debt relief.

4/ Defined as revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.

5/ Reflects the program assumption of a HIPC completion point (CP) debt stock reduction at end 2003; revised projections assume a CP in the first quarter of 2004.

6/ Figures take into account HIPC Initiative interim assistance from the IMF, the World Bank, the African Development Bank, and Paris Club.

Table 2. Senegal: Government Financial Operations, 2000-05  
(In billions of CFA francs)

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
Total revenue and grants	626.3	664.4	731.9	726.7	832.6	816.2	892.6	865.5	975.7	960.9
Revenue	562.3	602.7	662.0	664.6	728.3	721.3	789.5	781.3	858.1	843.3
Tax revenue	537.3	576.8	627.3	629.2	698.5	688.5	760.0	748.6	826.8	808.9
Nontax revenue 2/	25.0	25.9	34.7	35.4	29.8	32.8	29.5	32.7	31.3	34.4
Grants	64.0	61.7	69.9	62.1	104.4	95.0	103.1	84.2	117.6	117.6
Budgetary	14.1	0.0	1.9	1.9	29.4	20.0	18.1	11.6	22.6	22.6
Budgeted development projects	49.9	61.7	68.0	60.2	75.0	75.0	85.0	72.6	95.0	95.0
Total expenditure and net lending	623.1	733.0	718.7	772.5	883.6	887.4	942.8	966.8	1014.3	1019.7
Current expenditure	411.0	516.6	462.4	478.2	509.8	532.2	544.2	557.1	592.8	595.5
Wages and salaries	175.8	177.3	199.4	199.4	207.4	207.4	225.9	225.9	249.3	249.3
Interest due 2/	45.3	30.3	38.1	39.8	38.9	46.0	38.1	46.4	38.8	43.6
Of which : external 3/	39.6	23.7	33.9	35.4	30.6	38.9	30.4	38.8	30.5	35.7
Other current expenditure	189.9	309.0	224.9	239.0	263.5	278.8	280.3	284.8	304.7	302.6
Transfers and subsidies	92.9	178.5	...	...	131.0	146.3	135.2	138.5	145.9	148.1
Goods and services	97.0	130.5	...	...	132.5	132.5	145.1	146.3	158.9	154.6
Capital expenditure	193.2	217.2	275.7	318.1	318.1	318.1	349.5	355.4	375.3	375.3
Domestically financed	106.6	118.5	148.2	147.9	168.1	168.1	183.0	189.9	204.0	204.0
HIPC financed	0.0	0.0	10.1	13.7	7.7	4.1	0.0	10.9	0.0	18.6
Non HIPC financed	106.6	118.5	138.1	134.2	160.4	164.0	183.0	179.0	204.0	185.4
Externally financed 4/	86.6	98.7	127.5	170.2	150.0	150.0	166.5	165.5	171.3	171.3
Treasury special accounts and correspondents (net)	14.0	3.8	-19.1	-18.2	8.0	1.8	-3.0	0.8	-3.0	-5.0
Net lending	4.9	-4.6	-0.3	-5.6	8.0	2.5	8.0	8.0	8.0	8.0
Additional HIPC Initiative expenditures (to be identified)	0.0	0.0	0.0	0.0	24.7	32.8	29.1	18.6	26.1	30.9
Temporary costs of structural reforms	0.0	0.0	0.0	0.0	15.0	0.0	15.0	26.8	15.0	15.0
Overall fiscal balance (including grants)	3.2	-68.6	13.2	-45.8	-51.0	-71.2	-50.2	-101.3	-38.6	-58.9
Overall fiscal balance (excluding grants)	-60.8	-130.3	-56.7	-107.9	-155.4	-166.1	-153.3	-185.5	-156.2	-176.5
Excluding transaction costs of structural reforms and HIPC Initiative	-56.6	-124.7	-46.6	-97.8	-107.9	-129.3	-109.3	-129.1	-115.1	-111.9
Adjustments to cash basis	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic fiscal balance 5/	37.2	-25.9	78.8	65.0	10.6	-0.1	29.2	-4.0	31.1	10.8
Excluding temp. costs of structural reforms and HIPC Initiative	41.4	-20.3	88.9	75.1	58.1	36.7	73.2	52.4	72.2	75.4
Financing	-3.2	68.6	-13.2	45.8	51.0	71.2	50.2	101.3	38.6	58.9
External financing	17.1	54.9	66.9	110.6	50.2	71.1	64.5	135.5	59.4	72.8
Drawings	78.1	103.3	109.6	154.9	91.0	91.0	97.5	165.4	92.3	104.2
Treasury	37.1	60.6	42.2	42.2	0.0	0.0	0.0	56.5	0.0	11.9
Project loans	41.0	42.7	67.5	112.7	91.0	91.0	97.5	108.9	92.3	92.3
Amortization due	-65.2	-64.2	-79.4	-81.0	-65.5	-71.9	-62.1	-132.1	-59.0	-77.8
Debt relief and HIPC Initiative interim assistance 6/	4.2	15.8	36.7	36.7	24.7	44.0	29.1	97.9	26.1	41.2
T-bills issued in WAEMU	0.0	0.0	0.0	0.0	8.0	8.0	0.0	4.2	0.0	5.2
Domestic financing	-21.1	17.4	-76.5	-70.7	-19.1	0.0	-46.5	-36.0	-33.4	-14.4
Banking system	-28.3	21.8	-74.3	-75.4	-2.5	6.6	-38.2	-27.7	-25.4	-6.4
Of which : issuance of new treasury bills	...	...	...	...	23.0	15.0	12.0	7.8	23.5	9.8
Nonbank financing	7.2	-4.4	-2.2	4.7	-16.6	-6.6	-8.3	-8.3	-8.0	-8.0
Of which : privatization	2.9	-44.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Errors and omissions	0.8	-3.7	-3.6	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 7/	0.0	0.0	0.0	0.0	19.9	0.0	32.3	1.9	12.6	0.4
Memorandum items:										
HIPC Initiative expenditure 8/	4.2	5.6	10.1	10.1	32.4	36.9	29.1	29.6	26.1	49.6
Current social expenditure										
Education	87.9	99.1	127.5	127.5	140.8	140.8	187.3	187.3	221.6	221.6
Health	22.2	21.5	36.2	36.2	38.2	38.2	49.6	49.6	55.4	55.4
Current military spending	47.1	48.0	54.5	54.5	64.6	64.6	66.0	66.0	67.0	67.0
Gross domestic product	3,114.0	3,379.6	3,549.6	3,510.6	3,881.1	3,762.1	4,188.4	4,040.9	4,519.6	4,339.6

Sources: Senegalese authorities; and staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ Starting from 2003, interest due on domestic debt is gross and interest received on deposits with the Central Bank is recorded as nontax revenue.

3/ External debt service includes all debt directly contracted by the government and part of the government-guaranteed debt serviced by the budget.

4/ Sources of foreign financing are grants, loans, and uses of the proceeds received from Taiwan Province of China.

5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and lending.

6/ Includes from 2000 onward interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank, and Paris Club.

Revised 2002 and 2003 figures include the deferral of debt payments to Paris Club creditors in anticipation of a HIPC completion point in 2004.

2004 projections include a rescheduling of a Kuwaiti loan due in November 2004, for approximately FCFA 57 billion. The exact terms of this operation remain to be confirmed.

7/ In the "Program" columns, financing gap before external budgetary triggered by the new PRGF-supported program.

8/ Refers to HIPC-financed current spending in 2000 and 2001, and, for 2002-05, HIPC financed capital expenditures, expenditures authorized in the supplement budget of 2003, and expenditures still to be identified in 2004-05.

Table 3. Senegal: Government Financial Operations, 2000-05

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
(In percent of GDP)										
Total revenue and grants	20.1	19.7	20.6	20.7	21.5	21.7	21.3	21.4	21.6	22.1
Revenue	18.1	17.8	18.6	18.9	18.8	19.2	18.8	19.3	19.0	19.4
Tax revenue	17.3	17.1	17.7	17.9	18.0	18.3	18.1	18.5	18.3	18.6
Nontax revenue 2/	0.8	0.8	1.0	1.0	0.8	0.9	0.7	0.8	0.7	0.8
Grants	2.1	1.8	2.0	1.8	2.7	2.5	2.5	2.1	2.6	2.7
Total expenditure and net lending	20.0	21.7	20.2	22.0	22.8	23.6	22.5	23.9	22.4	23.5
Current expenditure	13.2	15.3	13.0	13.6	13.1	14.1	13.0	13.8	13.1	13.7
Wages and salaries	5.6	5.2	5.6	5.7	5.3	5.5	5.4	5.6	5.5	5.7
Interest payments 2/	1.5	0.9	1.1	1.1	1.0	1.2	0.9	1.1	0.9	1.0
Other current expenditure	6.1	9.1	6.3	6.8	6.8	7.4	6.7	7.0	6.7	7.0
Goods and services	3.1	3.9	...	...	3.4	3.5	3.5	3.6	3.5	3.6
Transfers and subsidies	3.0	5.3	...	...	3.4	3.9	3.2	3.4	3.2	3.4
Other	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.2	6.4	7.8	9.1	8.2	8.5	8.3	8.8	8.3	8.6
Domestically financed	3.4	3.5	4.2	4.2	4.3	4.5	4.4	4.7	4.5	4.7
Externally financed 3/	2.8	2.9	3.6	4.8	3.9	4.0	4.0	4.1	3.8	3.9
Treasury special accounts and correspondents (net)	0.4	0.1	-0.5	-0.5	0.2	0.0	-0.1	0.0	-0.1	-0.1
Net lending	0.2	-0.1	0.0	-0.2	0.2	0.1	0.2	0.2	0.2	0.2
Additional HIPC Initiative expenditures (to be identified)	...	...	...	...	0.6	0.9	0.7	0.5	0.6	0.7
Temporary costs of structural reforms	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.7	0.3	0.3
Overall fiscal balance										
Commitment basis, excluding grants	-2.0	-3.9	-1.6	-3.1	-4.0	-4.4	-3.7	-4.6	-3.5	-4.1
Commitment basis, including grants	0.1	-2.0	0.4	-1.3	-1.3	-1.9	-1.2	-2.5	-0.9	-1.4
Commitment basis, excluding grants, temporary costs of structural reforms, and HIPC initiative expenditure	-1.8	-3.7	-1.3	-2.8	-2.8	-3.4	-2.6	-3.2	-2.5	-2.6
Basic fiscal balance 4/	1.2	-0.8	2.2	1.9	0.3	0.0	0.7	-0.1	0.7	0.2
Basic fiscal balance, excluding temporary costs of structural reforms and HIPC Initiative expenditure	1.3	-0.6	2.5	2.1	1.5	1.0	1.7	1.3	1.6	1.7
Financing	-0.1	2.0	-0.4	1.3	1.3	1.9	1.2	2.5	0.9	1.4
External financing	0.5	1.6	1.9	3.2	1.3	1.9	1.5	3.4	1.3	1.7
Domestic financing	-0.7	0.5	-2.2	-2.0	-0.5	0.0	-1.1	-0.9	-0.7	-0.3
Errors and omissions	0.0	-0.1	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 5/	0.0	0.0	0.0	0.0	0.5	0.0	0.8	0.0	0.3	0.0
Memorandum items:	(In units indicated)									
HIPC Initiative expenditure (in percent of GDP)	0.1	0.2	0.3	0.3	0.8	1.0	0.7	0.7	0.6	1.1
Wages and salaries (in percent of tax revenue)	32.7	30.7	31.8	31.7	29.7	30.1	29.7	30.2	30.1	30.8
Gross domestic product (in billions of CFA francs)	3,114	3,380	3,550	3,511	3,881	3,762	4,188	4,041	4,520	4,340

Sources: Senegalese authorities; and staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ Starting from 2003, interest due on domestic debt is gross and interest received on deposits in the Central Bank are recorded in nontax revenues.

3/ Sources of foreign financing are grants, loans, and uses of the proceeds received from Taiwan Province of China.

4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and lending.

5/ In the "Program" column, financing gap before external budgetary triggered by the new PRGF-supported program.

Table 4. Senegal: Monetary Survey, 2000-05

	2000	2001	2002		2003			2004		2005	
			Est. 1/	Rev.	June	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
(In billions of CFA francs)											
Net foreign assets	88.7	169.6	279.5	296.8	285.4	309.9	312.0	380.0	380.3	429.7	414.1
Central Bank of West African States (BCEAO)	-5.6	66.7	144.8	137.7	160.5	165.8	168.8	225.8	227.1	264.7	250.1
Commercial banks	94.3	102.9	134.7	159.1	124.9	144.1	143.2	154.2	153.2	165.0	163.9
Net domestic assets	701.7	735.6	700.4	677.4	676.1	756.6	727.8	784.8	750.0	835.4	805.4
Net domestic credit	785.3	837.4	794.2	793.0	779.9	857.0	859.9	892.2	895.5	950.3	960.6
Net credit to the government	160.2	181.9	107.6	106.5	32.1	105.1	113.1	66.9	85.4	41.7	79.0
Central bank	201.2	221.0	188.8	188.7	133.3	177.4	190.6	141.6	169.8	107.3	168.2
Commercial banks	-42.5	-42.0	-84.1	-82.9	-104.0	-75.2	-78.3	-77.6	-85.3	-68.5	-90.0
Other institutions	1.5	2.9	2.9	0.7	2.8	2.9	0.8	2.9	0.8	2.9	0.8
Credit to the economy	625.1	655.5	686.6	686.5	747.8	751.9	746.8	825.3	810.1	908.6	881.6
Of which : crop credit	0.0	5.0	0.9	0.9	5.3	8.0	0.0	8.6	0.0	9.3	0.0
Other items (net)	-83.6	-101.8	-93.8	-115.6	-103.8	-100.4	-132.1	-107.4	-145.5	-114.9	-155.2
Broad money (M2)	790.4	905.2	979.9	974.2	961.5	1,066.5	1,039.8	1,164.8	1,130.3	1,265.1	1,219.5
Currency outside banks	172.0	217.8	204.6	192.7	142.9	218.2	177.9	233.3	189.3	249.4	201.4
Demand deposits	292.9	323.5	371.2	372.6	409.3	424.6	438.2	438.4	448.6	478.0	485.4
Time deposits	325.5	363.9	404.1	408.9	409.3	423.7	423.7	493.1	492.4	537.7	532.7
(Change in percentage of beginning-of-period money stock)											
Net foreign assets	-2.1	10.2	12.1	14.1	-1.2	3.1	1.6	6.6	6.6	4.3	3.0
BCEAO	-2.7	9.1	8.6	7.8	2.3	2.1	3.2	5.6	5.6	3.3	2.0
Commercial banks	0.5	1.1	3.5	6.2	-3.5	1.0	-1.6	0.9	1.0	0.9	0.9
Net domestic assets	12.8	4.3	-3.9	-6.4	-0.1	5.7	5.2	2.6	2.1	4.3	4.9
Net credit to the government	-4.0	2.7	-8.2	-8.3	-7.6	-0.3	0.7	-3.6	-2.7	-2.2	-0.6
Credit to the economy	19.5	3.8	3.4	3.4	6.3	6.7	6.2	6.9	6.1	7.2	6.3
Other items (net)	-2.7	-2.3	0.9	-1.5	1.2	-0.7	-1.7	-0.7	-1.3	-0.6	-0.9
Broad money (M2)	10.7	14.5	8.3	7.6	-1.3	8.8	6.7	9.2	8.7	8.6	7.9
Memorandum items:	(In units indicated)										
Velocity (GDP/M2; end of period)	3.9	3.7	3.6	3.6		3.6	3.6	3.6	3.6	3.6	3.6
Nominal GDP growth (percentage growth)	6.4	8.5	5.0	3.9		9.3	7.2	7.9	7.4	7.9	7.4
Credit to the economy (percentage growth)	28.6	4.9	4.7	4.7		9.5	8.8	9.8	8.5	10.1	8.8
Credit to the economy/GDP (in percent)	20.1	19.4	19.3	19.3		19.4	19.8	19.7	20.0	20.1	20.3
Variation of net credit to the government (since the beginning of the year; in billions of CFA francs)	-28.3	21.7	-74.3	-75.4	-74.4	-2.5	6.6	-38.2	-27.7	-25.3	-6.4

Sources: Senegalese authorities; and staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

Table 5. Senegal: Medium-Term Balance of Payments, 2000-05  
(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
Current account	-195	-164	-167	-199	-216	-248	-211	-232	-224	-232
Balance on goods	-297	-312	-320	-359	-393	-415	-386	-405	-412	-423
Exports, f.o.b.	655	735	765	758	777	764	841	781	893	845
Groundnuts products	60	73	62	48	35	29	45	30	46	55
Fish products	162	176	157	175	164	180	176	182	186	183
Phosphate products	72	86	131	121	130	108	148	117	155	121
Other exports	361	401	415	414	448	447	456	431	488	464
Imports, f.o.b.	-952	-1047	-1085	-1117	-1170	-1179	-1227	-1186	-1305	-1267
Petroleum products	-213	-205	-190	-174	-186	-201	-175	-174	-180	-177
Rice	-84	-91	-106	-106	-101	-106	-101	-105	-106	-112
Other consumer goods	-260	-325	-326	-341	-344	-356	-356	-381	-367	-408
Capital goods	-149	-156	-178	-194	-214	-207	-239	-228	-269	-251
Intermediate goods	-247	-270	-286	-304	-326	-309	-356	-297	-385	-319
Services and incomes (net)	-77	-76	-78	-83	-79	-96	-80	-90	-82	-92
Credits	336	341	354	351	367	355	382	371	397	386
Of which: tourism	103	128	134	134	141	132	148	141	155	148
Debits	-414	-417	-431	-433	-446	-451	-461	-462	-479	-478
Of which: interest on public debt 2/	-43	-33	-36	-37	-32	-41	-32	-40	-31	-36
Unrequited current transfers (net)	179	223	231	243	256	263	255	263	269	283
Private (net) 3/	115	173	177	192	182	195	190	201	199	211
Public (net)	64	50	53	51	74	69	65	62	70	72
Of which: budgetary grants	14	0	2	2	29	20	18	12	23	23
Capital and financial account	177	226	259	291	206	215	227	209	243	233
Capital account	55	86	71	63	78	78	88	76	98	98
Private capital transfers	2	2	3	3	3	3	3	3	3	3
Project grants	53	83	68	60	75	75	85	73	95	95
Debt cancellation	0	0	0	0	0	0	0	0	0	0
Financial account	121	140	189	228	129	138	139	133	145	135
Direct investment	44	29	54	41	61	60	64	64	67	71
Portfolio investment	10	10	5	-10	-7	8	-7	1	-7	2
Other investment	67	102	129	198	75	69	82	68	85	63
Public sector (net)	26	54	40	84	32	26	42	40	39	32
Of which: disbursements	88	117	115	160	96	96	103	171	97	109
program loans	37	61	42	42	0	0	0	57	0	12
project loans	41	43	67	113	91	91	98	109	92	92
other	10	5	5	5	5	5	5	5	5	5
amortization 2/	-62	-66	-77	-79	-64	-70	-61	-131	-58	-77
Private sector (net) incl. errors and omissions 3/	42	47	89	114	43	43	41	29	46	31
Overall balance	-19	61	92	92	-10	-33	16	-23	18	1
Financing	18	-61	-92	-92	10	33	-48	21	-31	-1
Net foreign assets (BCEAO)	19	-72	-78	-78	-21	-23	-60	-59	-39	-24
Operations account and other	22	-70	-65	-65	3	-3	-31	-40	-12	-4
Net use of Fund resources	-3	-2	-13	-13	-24	-20	-29	-19	-27	-20
Purchases	13	22	8	8	0	3	0	8	0	6
Repurchases	-16	-23	-21	-21	-24	-23	-29	-27	-27	-26
Deposit money bank	-4	-9	-32	-32	-9	16	-10	-10	-11	-11
Payments arrears (reduction -)	0	0	0	0	0	0	0	0	0	0
Exceptional financing 4/	3	19	18	18	20	40	22	91	19	34
Residual financing gap 5/	0	0	0	0	20	0	32	2	13	0
Memorandum items:										
Current account balance										
As percentage of GDP (incl. current official transfers)	-6.3	-4.9	-4.7	-5.7	-5.6	-6.6	-5.0	-5.7	-5.0	-5.3
As percentage of GDP (excl. current official transfers)	-8.5	-6.5	-6.3	-7.2	-7.6	-8.5	-6.7	-7.4	-6.6	-7.1
Gross official reserves	273.3	339.3	406.7	403.7	402.1	403.0	435.1	445.5	448.0	451.0
(in months of imports of GNFS)	2.6	3.0	3.5	3.4	3.2	3.2	3.3	3.5	3.2	3.3
Nominal GDP (in billions of CFA francs)	3,114	3,380	3,550	3,511	3,881	3,762	4,188	4,041	4,520	4,340

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

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ Interests and amortization of public debt can be slightly different from those presented in the fiscal table, owing to a different treatment of the operations account debt at the Central Bank of West African States (BCEAO). 2004 includes scheduled repayment of KWD 30 million (equivalent to CFAF 57 billion) loan.

3/ For 2002, includes CFAF 35.5 billion in French franc notes converted into local currency (without counterpart in the current account).

4/ Interim HIPC Initiative debt relief is recorded as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank, and Paris Club. 2004 includes a possible rescheduling of KWD 30 million (CFA francs 57 billion) loan, which remains to be confirmed.

5/ In the "Program" columns, financing gap before external budgetary support triggered by the new PRGF-supported program.

Table 6. Senegal: External Financing Requirements, 2000-05  
(In billions of CFA francs)

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
External financing requirements	-153	-236	-179	-217	-201	-230	-231	-334	-212	-233
Current account deficit (excl. official transfers)	-195	-164	-167	-199	-216	-248	-211	-232	-224	-232
Amortization	-62	-66	-77	-79	-64	-70	-61	-131	-58	-77
Fund repurchases	-16	-23	-21	-21	-24	-23	-29	-27	-27	-26
Private capital, net	98	88	151	147	100	114	100	96	109	106
Change in arrears	0	0	0	0	0	0	0	0	0	0
Change in net external reserves without IMF (- = increase)	22	-70	-65	-65	3	-3	-31	-40	-12	-4
Available financing	91	125	117	163	91	94	98	174	92	110
Project financing	41	43	67	113	91	91	98	109	92	92
Program financing	37	61	42	42	0	0	0	57	0	12
IMF	13	22	8	8	0	3	0	8	0	6
Official transfers and other	62	111	62	54	90	136	102	159	107	123
Financing gap 2/	0	0	0	0	20	0	32	2	13	0

Sources: Senegalese authorities; and staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ In the "Program" columns, financing gap before external budgetary triggered by the new PRGF-supported program.

Table 7. Senegal: Evolution of External Public Debt, 2000-05

	2000	2001	2002		2003		2004		2005	
			Est. 1/	Rev.	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.
(In billions of CFA francs)										
Net change in nominal debt stock 2/	16.0	45.5	32.2	75.9	-455.5	60.7	90.5	-337.5	65.3	61.3
Newly accumulated debt	78.1	111.6	109.6	154.9	110.9	91.0	129.8	167.4	104.9	104.6
Budgetary loans	37.1	60.6	42.2	42.2	19.9	0.0	32.3	58.4	12.6	12.3
Project loans	41.0	51.0	67.5	112.7	91.0	91.0	97.5	109.0	92.3	92.3
Debt amortization and interim debt relief	-62.1	-66.1	-77.4	-79.0	-43.6	-30.4	-39.3	-40.4	-39.6	-43.3
Stock of external public debt 2/	2158.1	2203.6	2235.8	2279.5	1780.4	2211.0	1870.9	1873.5	1936.2	1934.8
(In units indicated)										
Key external debt ratios										
NPV of debt to GDP 3/	37.7	35.5	34.3	35.3	32.3	36.2	31.5	28.5	30.2	27.6
NPV of debt to exports 3/ 4/	132.2	125.8	120.6	123.4	118.1	129.5	118.9	107.4	117.1	107.7
NPV of debt to fiscal revenue 3/	239.9	223.9	209.5	213.6	197.9	215.7	189.7	167.6	179.2	160.1
Nominal debt stock to GDP	69.3	65.2	63.0	64.9	45.9	58.8	44.7	46.4	42.8	44.9
Memorandum items:										
Debt stock (nominal growth) 2/	0.7	2.1	1.5	3.4	-20.4	-3.0	5.1	-15.2	3.5	3.9
Exports (in billions of CFA francs) 5/	930.0	1027.0	1068.3	1057.7	1092.4	1066.9	1168.7	1098.5	1235.3	1175.5
Exports (nominal growth)	3.2	10.4	4.0	3.0	2.3	0.9	7.0	3.0	5.7	7.0
Fiscal revenue (in billions of CFA francs)	537.3	576.8	627.3	629.2	698.5	688.5	760.0	748.6	826.8	808.9
Fiscal revenue (nominal growth)	10.9	7.4	8.8	9.1	11.3	9.4	8.8	8.7	8.8	8.1

Source: Fund staff estimates and projections.

1/ As in the April 14, 2003 Staff Report (Country report No. 03/167).

2/ Assumes completion point and associated stock-of-debt operation in 2004 (in the program columns the projected timing was 2003).

3/ Assumes that degree of concessionality evolves as projected in the Decision Point document.

4/ Simple three-year historical average of exports of goods and nonfactor services.

5/ Current year exports of goods and nonfactor services.



Table 8. Senegal: Fund Position During the Period of the PRGF Arrangement, 2003-06

	2003					2004					2005				2006		
	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	TOTAL	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	TOTAL	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	TOTAL	Jan.- Mar.	Apr.- June
(In millions of SDRs)																	
Disbursements under PRGF 1/	0.0	3.5	0.0	0.0	3.5	3.5	3.5	0.0	3.5	10.4	0.0	3.5	0.0	3.5	6.9	0.0	3.5
IMF interim assistance	0.0	1.4	1.9	1.8	5.1	1.1	2.8	2.4	2.8	9.0	2.1	2.6	2.1	2.1	8.8	1.6	1.1
Repurchases/repayments	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0
Charges and interests	0.1	0.6	0.1	0.5	1.3	0.1	0.5	0.1	0.4	1.2	0.1	0.4	0.1	0.4	1.0	0.1	0.3
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	0.0	0.4	0.0	0.4	0.9	0.0	0.4	0.0	0.3	0.7	0.0	0.3	0.0	0.3	0.5	0.0	0.2
SDR charges	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1
Total Fund credit outstanding																	
(end of period)	178.2	176.2	168.5	161.3	161.3	157.1	151.6	144.0	138.4	138.4	131.0	125.5	118.1	114.2	114.2	106.8	105.3
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	178.2	176.2	168.5	161.3	161.3	157.1	151.6	144.0	138.4	138.4	131.0	125.5	118.1	114.2	114.2	106.8	105.3
Quota	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8
(In percent of quota)																	
Total Fund credit outstanding																	
(end of period)	110.1	108.9	104.2	99.7	99.7	97.1	93.7	89.0	85.5	85.5	81.0	77.5	73.0	70.6	70.6	66.0	65.1
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF	110.1	108.9	104.2	99.7	99.7	4.7	93.7	89.0	85.5	85.5	81.0	77.5	73.0	70.6	70.6	66.0	65.1

Sources: International Monetary Fund, Finance Department; and staff projections.

1/ Total disbursements over three years equal 15 percent of quota.

Table 9. Senegal: Schedule of Projected Reviews and Disbursements  
Under the PRGF Arrangement, 2003–06

Date	Action	Disbursement
April 2003	Executive Board consideration of request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and conclusion of the 2002 Article IV consultation.	SDR 3.47 million
End-June 2003	Quantitative performance criteria.	
February 2004	Executive Board consideration of the first review under the PRGF arrangement.	SDR 3.47 million
End-December 2003	Quantitative performance criteria.	
April 2004	Executive Board consideration of the second review under the PRGF arrangement.	SDR 3.47 million
End-June 2004	Quantitative performance criteria.	
October 2004	Executive Board consideration of the third review under the PRGF arrangement.	SDR 3.47 million
End-December 2004	Quantitative performance criteria.	
April 2005	Executive Board consideration of the fourth review under the PRGF arrangement and conclusion of the 2004 Article IV consultation.	SDR 3.47 million
End-June 2005	Quantitative performance criteria.	
October 2005	Executive Board consideration of the fifth review under the PRGF arrangement.	SDR 3.47 million
End-December 2005	Quantitative performance criteria.	
April 2006	Executive Board consideration of the sixth review under the PRGF arrangement (final disbursement).	SDR 3.45 million

Republic of Senegal  
Ministry of Economy and Finance

Dakar, January 26, 2004

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Köhler:

1. To support the implementation of Senegal's program of economic and financial reforms geared toward poverty reduction for the period 2003–05, the Executive Board of the International Monetary Fund on April 28, 2003 approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), in the amount of SDR 24.27 million. The attached memorandum of economic and financial policies describes the results achieved during the first six months of the annual program for 2003 and the progress made through end-September 2003 in the implementation of the structural reforms. It also presents the policies that the government has adopted for the rest of the year with a view to meeting the program objectives.
2. As stated in paragraph 13 of the memorandum, all of the program's quantitative performance criteria were met as at end-June 2003. However, the government's undertaking not to contract or guarantee any nonconcessional debt could not be observed in July 2003, as the public enterprise SENELEC contracted a nonconcessional external loan of CFAF 9 billion. That decision revealed shortcomings in the coordination of external public debt management.
3. The government has since improved the internal tracking structures, with a view to ensuring that the responsibility for prior authorization of any new foreign borrowing by the state or its agencies will be with the Minister of Economic Affairs and Finance.
4. As regards the structural benchmarks, the government produced on an experimental basis, as scheduled, the end-September 2003 treasury balance according to the new chart of accounts. By contrast, delays were experienced in the process launched to solicit private investment in the power and groundnut sectors. In the power sector, the process of awarding an Independent Power Producer (IPP) concession for the production of 60-megawatt electricity began with a call for expressions of interest. In June 2003, six companies were prequalified and received the technical specifications; the complete tender documents were subsequently prepared and the invitations for bids were ultimately issued to the prequalified companies on November 5, 2003. Also, the process of privatization of SONACOS, the groundnut processing company, was held up because

of delays incurred in the related technical preparations. As a result, the first phase of the process (the call for expressions of interest) could take place only on July 31, 2003; the second phase (the prequalification of potential investors) was completed on December 10, 2003; and the invitations to bid were actually issued on January 13, 2004. Despite the delays experienced in the implementation of these reforms, considerable progress was made in involving private operators in the power and groundnut sectors—so much so, that the program objectives should be attained.

5. For the reasons explained in the attached memorandum and in light of the remedial measures already taken, the government requests a waiver for its nonobservance of the performance criteria requiring it not to contract any new nonconcessional external debt, to issue invitations to bid for an IPP concession by end-June 2003, and to issue invitations to bid for the privatization of SONACOS by end-July 2003.

6. The government believes that the policies and measures set forth in the attached memorandum, as well as the policies presented in the previous memorandum of economic and financial policies of April 10, 2003, will permit the achievement of its program objectives, however, it will, if required, take any additional measures deemed necessary in this connection. The government will consult the Managing Director of the IMF on the adoption of these measures and before making any amendments to the policies described in the memorandum.

7. To facilitate the attainment of those objectives and the implementation of its policies, the government requests the second disbursement envisaged in the three-year arrangement, in an amount equivalent to SDR 3.47 million, as well as interim assistance from the Fund under the enhanced HIPC Initiative during February-April 2004 in the amount of SDR 1.066 million.

8. The government undertakes to carry out with Fund staff the second review of the PRGF program by end-April 2004.

9. The government of Senegal consents to the publication of this letter, the memorandum of its economic and financial policies, and the report of Fund staff on the first review of the program.

Sincerely yours,

/s/

Abdoulaye Diop  
Minister of Economy and Finance

Attachment: Memorandum of Economic and Financial Policies

## SENEGAL

### Memorandum of Economic and Financial Policies

Dakar, January 26, 2004

#### I. INTRODUCTION

1. Senegal's commitment to achieve poverty reduction objectives is clearly borne out in the poverty reduction strategy paper (PRSP), which was drafted with the help of all the development stakeholders and endorsed by the donor community at the advisory group meeting in Paris on June 12-13, 2003, following its consideration in December 2002 by the IMF and World Bank Executive Boards.
2. The Economic and Financial Program for 2003-05, designed by the government and based essentially on the PRSP, was approved by the IMF on April 28, 2003. Its implementation will consolidate the macroeconomic foundation and achievements in the area of public finances. To benefit from the external debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), the government intends to meet the conditions for the completion point by end-March 2004.
3. A national framework for task monitoring and evaluation is already in place to facilitate the implementation of the poverty reduction strategy. The government of Senegal intends to draft a report on the first year of PRSP implementation by end-January 2004, and will continue working with donors that have offered technical and financial assistance.
4. This memorandum reviews the performance of financial policies and the implementation of structural reforms over the first six to nine months of 2003, and assesses the outlook for the end of 2003. It also sets out the agreed time frame for certain public sector reforms, especially tax and recruitment policy reforms, as well as the agenda for developing a medium-term strategy for the compensation of civil servants. The memorandum provides an updated macroeconomic outlook for 2004 and describes public finance trends.

#### II. PERFORMANCE UNDER THE PROGRAM

##### A. Program Objectives and Financial Policies for 2003

5. The Economic and Financial Program for 2003 was based on a GDP growth rate of 6.6 percent, reflecting a projected partial recovery of agricultural production toward its trend level—which would raise output in the primary sector by 10.8 percent, and by 5.7 percent in the nonagricultural economy. Two key factors were expected to support rising nonagricultural output: the significant investment in recent years in the expansion of chemical and electrical production capacity, and continued strong construction activity

(11.9 percent) in conjunction with the public investment program. Inflation was expected to remain moderate, with a change in the GDP deflator of about 2.5 percent.

6. The overall fiscal deficit (including grants) was targeted at 1.3 percent of GDP, and the external current account deficit (including grants) was projected at 5.6 percent of GDP. In the monetary area, a prudent policy was to be maintained, with a projected 8.8 percent increase in broad money, in step with nominal GDP growth.

7. In the first year of the program, the government was to focus on accelerating the reform agenda for strengthening public expenditure management and on implementing institutional reforms in sectors that, in the past, had seriously impeded attainment of its fiscal objectives, particularly the electricity and groundnut sectors and the postal service. Tax reforms to be introduced in 2004 were prepared in 2003. The government also committed itself to developing, in the course of 2003, a new medium-term recruitment policy and components for a civil service compensation strategy.

#### **B. Economic and Financial Developments in the First Half of 2003 and Outlook for the Full Year**

8. Economic developments in the first half of 2003 were less favorable than expected, owing to the cumulative effect of several exogenous factors. First, the latest data on the 2002 harvest, which became available at the beginning of 2003, showed that the low rainfall had had a greater impact than originally predicted. The drop in agricultural production in 2002 is now estimated at about 30 percent, compared with the 21 percent drop initially estimated. This led to a reduction in disposable income for rural households and a risk of isolated food shortages in early 2003, and sparked fears of a seed shortage for the 2003 crop year, especially in the groundnut sector. In light of these factors, the authorities launched an emergency program to aid the rural sector, the costs of which were specified in a supplementary budget passed in August 2003 (see Section III.A below).

9. At the same time, weak world prices for certain export goods, including phosphates, combined with the rise of the euro (to which the CFA franc is pegged) against the U.S. dollar, caused a slowdown in economic activity in these sectors, while the decline in rural household income and a lag in execution of public expenditure also dampened domestic demand. The unfavorable private sector conditions thus led to a greater use of bank credit than had been expected, and to a drop in domestic private financial savings, the latter of which was reflected in a 1.3 percent contraction of the money supply at end-June 2003 from its level at end-December 2002. Finally, weak domestic demand and a drop in the price of imported goods caused a slight drop of about 0.3 percent in the consumer price index from June 2002 to June 2003.

10. Fiscal policy was prudent. Tax revenue performance fell short of the six-month targets for 2003, with a shortfall of around CFAF 10 billion (about 3 percent of the target), mainly reflecting slower-than-expected growth in the tax base. However, this loss was more

than offset by a lag in the execution of capital expenditures on domestic resources, and by the accumulation in correspondent accounts of resources transferred by the state budget; at the same time, the execution of current expenditures remained strictly within the six-month budget appropriations. Overall, the surplus of the basic budget balance at midyear was nearly CFAF 85 billion, which was about 1 percent of GDP above target.

11. Preliminary indications for the second half of 2003 suggest that the economic trends should partially have been reversed from the first half of the year owing to higher public expenditure, including a more ambitious HIPC funds expenditure program enacted under the supplementary budget of August 2003, as well as better conditions in certain productive sectors. In particular, agricultural production should have edged up toward trend levels (with a resulting growth rate of almost 36 percent over 2002), and production in the secondary sector should have picked up at a rate of about 4.4 percent, which would still be below the program projection of nearly 8 percent. Overall, real GDP and nonagricultural GDP growth are expected to have reached 6.3 percent and 4.2 percent, respectively, as against 6.6 percent and 5.7 percent in the program. The inflation rate, as measured by the average annual consumer price index, should have been close to zero.

12. The increase in broad money should have reached 6.7 percent in 2003. Bank credit to the economy should have risen by 8.8 percent, in line with program targets, under eased monetary conditions. The Central Bank of West African States (BCEAO) lowered its key rates (discount and repurchase rates) by an overall 100 base points and 50 base points, respectively, on July 7 and October 20, 2003. Since then, its key rates have been equal to 5 percent (discount rate) and 4.5 percent (repurchase rate). The external current account balance (including current official grants) should have showed a deficit of about 6.6 percent of GDP, compared with a program target of 5.6 percent, mainly owing to the weakness of certain export sectors. The total value of exports and imports should, however, have been buoyed by a rise in reexport transactions of a temporary nature.

### **C. Performance with Regard to Quantitative Criteria and Indicators**

13. All the quantitative criteria for end-June 2003 were met. In particular, the basic budget balance was CFAF 83.5 billion and the reduction in net credit to government was estimated at CFAF 74.2 billion, both of which outcomes exceeded expectations. Concurrently, the electric utility, SENELEC, cleared all of its outstanding arrears.

14. However, the criterion concerning the contraction or guarantee of nonconcessional external public debt, which applies continuously, was not met by end-July 2003 because SENELEC had contracted a nonconcessional external loan from the West African Development Bank (BOAD) to finance emergency investments. Although the government feels that this particular loan was justified, its contraction illustrates the need to reinforce the institutional arrangements for monitoring external public debt.

15. With regard to the quantitative indicators at end-June, neither tax revenue, treasury correspondent accounts, guarantee deposits, nor SENELEC's basic balance measured up to program targets. Tax revenue did not reach the target level due to negative developments in the tax base at the beginning of the year, as mentioned above. As for the treasury correspondents, accumulations in the deposit accounts overshot the program target, although the trend since June 2003 indicates that there should be a marked improvement in this area by end-December 2003. Guarantee deposits exceeded the ceiling set for end-June, mainly because of the difficulties that SENELEC encountered in refinancing the government-backed credit. Nevertheless, this refinancing operation should be resolved by end-December 2003. Finally, although SENELEC achieved an operating surplus, the basic balance did not reach the target level because of a shortfall in the recovery of claims.

#### **D. Structural Performance Criteria and Benchmarks**

16. With regard to structural criteria, the criterion on the production of treasury account balances from March to July 2003, based on the new West African Economic and Monetary Union (WAEMU) chart of public accounts, was met.

17. The criterion on the tender for bids for an independent power producer (IPP)-type concession was not met by the end of June 2003 because of delays in the technical preparations of the specifications. The procedure for selecting a concessionaire began in May 2003 with a call for expression of interest and was followed by a short-listing of prequalified potential bidders. The document of technical specifications was then transmitted to the short-listed concessionaires at the end of June 2003. However, it turned out that the government needed to discuss further the technical aspects of the financial package for the operation with its development partners engaged in electricity sector reforms, in particular the World Bank, so as to ensure that the tender document and the draft contract for energy purchases satisfied international best practices. The tender was eventually issued to the short-listed concessionaires on November 5, 2003, and a contract should be awarded provisionally by end-January 2004, and finalized within two months.

18. With regard to the privatization of the groundnut processing company, SONACOS, a call for expression of interest was launched on July 31, 2003, but the requirement that a tender for bidding be issued on that date was not met. The shortlist of qualifying potential investors was completed on December 10, 2003. The full tender for bidding was issued to short-listed investors on January 13, 2004.

19. As for the structural benchmarks, the national accounts, which were revised on the basis of the System of National Accounts 1993, were published in April 2003. However, the year-end treasury accounts for 2000 to 2001 were not submitted to the Audit Office by end-August 2003 because of disputes over submission procedures and a delay in the closure of accounts for 1997. Publication of the audit of SENELEC's semiannual accounts at end-June 2003, which was initially scheduled for end-September 2003, was possible only on



January 8, 2004 because the company management was slightly behind in approving the 2002 audited accounts, which determine the opening balance of the 2003 accounts.

### **III. ECONOMIC AND FINANCIAL POLICY MEASURES FOR ACHIEVING THE 2003 TARGETS**

#### **A. Fiscal Policy**

20. For the rest of 2003, the fiscal stance remained prudent. The basic fiscal balance (including additional HIPC Initiative-related spending and the costs of structural reforms) is expected to be zero percent of GDP, compared with an initial program target of 0.3 percent. Projected revenue is CFAF 721.3 billion, CFAF 688.5 billion of which is fiscal revenue, as a greater effort on the part of tax administration should partially have compensated for weaker growth in the tax base. The shortfall in nominal tax revenue should only have been on the order of 1 percent of the program target, but tax revenue as a ratio of GDP should have increased to 18.3 percent, compared with the program target of 18.0 percent and a ratio of 17.9 percent in 2002.

21. Disbursement of budget grants, mainly from the European Union, should have amounted to no more than about CFAF 20 billion by end-2003, since part of the aid was deferred until 2004. The program foresaw about CFAF 30 billion in budget grants from the European Union, including disbursements amounting to CFAF 10 billion made prior to 2003 into an account at the BCEAO.

22. Total expenditures should have reached 23.6 percent of GDP, or CFAF 887.4 billion in 2003. This amount includes expenditures authorized in the supplementary budget (LFR2003) of August 8, 2003; this budget allowed the government to set up an emergency aid program for the rural community to alleviate the distress caused by the poor harvest in 2002, and to authorize more HIPC Initiative expenditures than initially planned. The 2003 supplementary budget expenditures amounted to CFAF 60.2 billion, CFAF 44.2 billion of which was HIPC Initiative expenditure (about 75 percent of which was to be executed by the end of 2003), and about CFAF 15 billion has been earmarked for emergency aid for the rural community in the form of food aid, animal feed, and subsidies for the purchase of groundnut seed. In light of the expected slowdown in several sectors of the economy and the resulting impact on poverty levels, the government also felt that these additional expenditures should not be offset by a reduction in nonpriority sector spending, and that the consequent moderate budgetary impact was consistent with program objectives. Moreover, planned expenditures to finance the temporary costs of structural reform were deferred to 2004.

23. External financing, reaching CFAF 71.1 billion, was expected to stay close to program projections but to have a slightly different distribution. The deferral to early 2004 of disbursements of budgetary support from the World Bank and the African Development Bank should have been compensated for by higher external debt relief from interim assistance under the enhanced HIPC Initiative than initially programmed (about CFAF 44 billion, compared with a projected CFAF 24.7 billion) and by the proceeds from treasury bills issues in the countries of the WAEMU (CFAF 8 billion). Taking the slightly larger-than-

programmed overall fiscal deficit into account (CFAF 71.2 billion, against the CFAF 51 billion programmed), the reduction of government domestic indebtedness should have been slightly smaller than forecast, and the net indebtedness with the banking system should have increased by around CFAF 7 billion, compared with a planned small reduction.

24. Progress was made in reinforcing public expenditure management. Three WAEMU directives on public finance were adopted as planned in March 2003. Action plans to strengthen budget procedures (CFAA) and procurement procedures (CPAR) were validated by an Interministerial Council in July 2003 and have been implemented since then. Tests were run on transactions for September 2003 in order to integrate treasury settlement transactions into the computer tracking system for expenditures. The testing was completed at the end of 2003. As for disseminating financial data and data on budget control, the government duly filled in the questionnaire pertaining to a mission on the public finance module of the IMF Report on the Observation of Standards and Codes (ROSC), and has requested a mission for 2004.

25. The government intends to pursue its policy of systematically submitting the executed annual budget accounts to the Audit Office for examination and of submitting the budget review laws, which certify proper budgetary execution, for parliamentary scrutiny within the time frame set out in the Organic Law, in keeping with its commitments under the WAEMU directive on this matter. This directive stipulates in particular that a budget review law for the 2002 budget be submitted to parliament, together with the 2004 budget. The Audit Office examined the annual accounts for 1997 and 1998, and the budget review laws will be sent to the National Assembly as soon as possible. However, the problems encountered in 2003 prevented the Audit Office from completing examination of the 1999 annual accounts, and so the accounts for 2000 to 2002 were not examined either.

26. These problems highlighted the need to have clear rules for submitting the accounts and related documentation to the Audit Office, and such rules will enter into force by end-March 2004.

27. To speed the processing of the budget review laws for 1999 to 2003, the government and the Audit Office will request technical and financial support from the World Bank and other bilateral and multilateral development partners, with a view to (i) helping the government submit the accounts and draft budget review laws for the years in question to the Audit Office by the end of 2004; and (ii) assisting the Audit Office in exercising its role as external auditor of government practices within the time frame set in the Organic Law.

## **B. Tax Reform**

28. The government submitted the revisions of the General Tax Code to the National Assembly in January 2004. The planned fiscal reform aims to simplify the tax system and make it more equitable, widen the tax base and promote voluntary compliance, promote

investment and competitiveness, improve taxpayer guarantees, and combat tax evasion. Salient features of the reform include the following:

- The corporate tax rate (IS) will be reduced from 35 percent to 33 percent. This follows up on the findings of the study on reducing the effective marginal tax rate that was carried out in line with the recommendations of the World Bank's Foreign Investment Advisory Service (FIAS) Department report. This reduction in the corporate tax rate ties in with the abolition of the tax credit on investment financed by undistributed profits; the elimination of the special deductions for equipment renewal; and the extension of the accelerated depreciation regime to new sectors, including tourism.
- A composite tax on small enterprises called the Single General Contribution (CGU), using a simple mechanism that stands in for income tax, value-added tax (VAT), patent and license contributions, and the employer's flat contribution (CFCE). The CGU will promote voluntary tax compliance and expand the tax base, and will provide an extra boost in revenue from small enterprises.

29. At the same time, the government submitted a revised draft Investment Code to the National Assembly in January 2004. The objectives of the new Investment Code are the following: channel investment to growth sectors or sectors where Senegal has a comparative advantage, and create jobs. The government will ensure overall consistency in fiscal policy by balancing the guiding principles of the new Investment Code with the reform of the General Tax Code, thereby ensuring that the impact of incentive measures on public finance is insignificant.

30. The revised system of investment incentives takes account of changes in the Senegalese economy and its environment. The export processing zone regime is extended to include the electronic customer support services industry. The new Investment Code, which will replace the present code adopted in 1987, broadens its scope to include sectors where the government is pursuing specific, priority objectives. Investments of over CFAF 100 million in these sectors will be eligible. The new Investment Code envisages four types of tax benefits for these sectors, beyond the General Tax Code. It provides exemption from customs duties for eligible capital goods and suspension of VAT payments during the investment period. The suspended VAT will be paid during the operating stage. The new code also provides a tax credit on investment for a limited period of time. In addition, eligible companies get a temporary exemption from the employers' contribution (CFCE) on new hiring.

### **C. Civil Service Recruitment and Compensation Policy in the Medium Term**

31. The medium-term recruitment policy aims to accelerate progress toward achieving the PRSP targets for building capacity and promoting basic social services in health and education, and good governance. Raising the ceiling of the workforce is compatible with the

WAEMU convergence criterion for the wage bill-fiscal revenue ratio and is justified in view of priority sector constraints, especially for the social sectors, the tax authorities (*régies financières*), the judiciary, and security. The change in policy is also justified in light of the pressing needs of ministries, in which low staffing has affected the quality of public services. Generally speaking, the staffing indicators for these sectors fall short of generally accepted standards (see Appendix I, Attachment I, Annex I).

32. The government adopted a multiyear recruitment target of 15,000 civil servants for 2003-05, with a hiring rate of 5,000 per year. The cumulative impact of this special recruitment drive on the wage bill is around CFAF 37 billion for the three-year life span of the program, compared with 2002 and not counting wage adjustments. This is consistent with the financial targets of the program in terms of the wage bill.

33. At the same time, the compensation strategy will be reviewed to better adapt it to the economic context. The government has begun a study on civil service compensation policy that will be carried out under the supervision of a steering committee, and the findings will be made available in the first half of 2004. This study will take stock of all legislation on compensation and the civil service compensation arrangements. This will serve as a basis for the government to adopt, during the third quarter of 2004, an equitable, coherent, and incentive-driven compensation system that gives special consideration to issues of competitiveness vis-à-vis private sector employment practices. The implementation of the new compensation strategy will take place within the programmed wage envelope for 2004-05.

#### **D. Financial Sector Policies**

34. The financial sector remains largely sound, and the authorities are continuing to implement the sector development policy. In September 2003, the government and the banking commission agreed that one bank that lacks equity will be restructured by March 2004 at the latest. The government and the shareholders have agreed on the following modalities for the restructuring:

- a balancing subsidy of US\$2 million in the form of a shareholder loan (*apport en compte courant d'associés*) from the foreign reference shareholder;
- foreign lines of credit totaling US\$10 million granted by another foreign shareholder to finance import operations;
- a transfer of frozen claims of CFAF 1.5 billion to the government of Senegal paid by in the form of seven-year securities bearing an interest rate of 2.5 percent.

In the microfinance sector, a policy document is being drafted and a technical assistance program agreed on with AFRITAC West is scheduled to start up in 2004.

35. As part of the macroeconomic framework that underpins the 2003 Economic and Financial Program, the government issued CFAF 23 billion in treasury bills (principal and interest) with a one-year maturity on September 10, 2003 throughout the WAEMU. The interest rates obtained are the lowest of the latest issues in the subregion, which shows the worth of the Treasurer's signature. The outcome bodes well for more regular issues, as well as for issues of greater amounts with longer maturities. The government is striving to gain a foothold in the short-term market and the bond market according to its financial needs in order to develop the financial market, and it is planning to set up a specialized department in the treasury so as to enhance capacity for this purpose.

36. With regard to promoting justice, which is a major factor in the development of the financial and credit market, the government is going ahead with its plan to recruit 186 magistrates, 105 clerks, and 761 administrative assistants as part of its recruitment policy during 2003-05. Several clerks' offices have been modernized and automated to speed up the delivery of justice. Moreover, a ten-year judiciary development plan is being finalized.

#### **E. External Debt Policy**

37. On July 28, 2003, SENELEC signed an external credit agreement with the BOAD for nearly CFAF 9 billion on a nonconcessional basis, with a view to expanding its production capacity. The government is aware that the terms of the credit agreement do not comply with the provisions of the technical memorandum of understanding (TMU) of April 10, 2003 and will require a waiver.

38. This request is primarily based on the need to carry out extremely urgent investment projects, upon which depend SENELEC's operating activities. The BOAD resources were the sole source of financing that would enable those projects to be completed on time. In addition, the transfer of power plants covered by the BOAD credit to the private sector will start as soon as possible, in keeping with the Letter of Energy Sector Development Policy (*Lettre de Politique de Développement du Secteur de l'Énergie*).

39. In support of its request for a waiver, the government took measures to strengthen its management of external debt policy. In particular, control of public enterprise debt was stepped up to meet the program objectives. A government circular letter was sent to all public institutions covered by the TMU on November 24, 2003, instructing them to seek authorization from the Ministry of Economic Affairs and Finance before contracting an external loan.

40. In its ongoing endeavor to improve the external public debt management system, the government of Senegal has also built up the capacities of the Debt and Investment Directorate of the Ministry of Economy and Finance. Missions have been conducted to reconcile external public debt data with creditors, in cooperation with IMF and World Bank staffs, as part of the preparation of the HIPC Initiative completion point document. Finally, information sharing between the unit in charge of managing public debt and those involved in the design of the

macroeconomic framework will be reinforced by the Coordination Committee in the first quarter of 2004.

## **F. Key Sector Reforms: Groundnut and Electricity**

### **Groundnuts**

41. Government policy for the groundnut industry was defined in the Letter of Groundnut Industry Development Policy (*Lettre de Politique de Développement de la Filière Arachide, LPDFA*), adopted in May 2003. It mainly aims at diversifying production and making it more dynamic, so as to increase the revenue of small farmers and mitigate the vulnerability induced by the groundnut monoculture. The policy deepens and consolidates the liberalization policy undertaken, in particular by (i) giving private seed producers responsibilities in the production, gathering, storage, and distribution of groundnut seed, and in the transportation and marketing of groundnut seeds; (ii) rationalizing the judicial and regulatory framework (regulations on the marketing of seeds, protection mechanisms, etc.) strictly enforcing existing regulations; and (iii) withdrawing the protective tax on vegetable oil, scheduled before end-March 2004.

42. Concerning the privatization of SONACOS, the prequalification of potential investors was completed on December 10, 2003. The tender document for the final bidding was given, after consultation with the World Bank, to the three prequalified investors on January 13, 2004. The government agrees on the necessity to sell the real estate assets and the production plants and equipment in separate lots. In order to maintain the attractiveness of SONACOS, the patents acquired by the firm will be passed on to the purchaser, opened in public session, like all other assets, and the legal duration of each patent will be strictly enforced. However, any entrepreneur who wishes to use the patent can sign a technical memorandum of understanding with SONACOS. The government also decided that the financial bid will be the only criterion determining the selection among technically qualified bidders, and that the financial bids will be opened to the public session.

### **SENELEC's financial position**

43. At end-June 2003, SENELEC's financial position was less favorable than expected. The basic balance (on a payment order basis) of the company was CFAF 5.8 billion, compared with the targeted surplus of CFAF 14.1 billion. This is explained by a shortfall of about CFAF 8 billion in current bill collections and by current operating charges that were over CFAF 2 billion more than expected. This was due, in particular, to the smaller-than-expected supply of low-cost energy from the Manantali Dam, caused, in turn, by low rainfall in 2002. Nevertheless, by end-June 2003, the company did clear its stock of arrears (estimated at nearly CFAF 21 billion at end-2002) by negotiating a bridge loan of CFAF 6 billion that month and by restructuring roughly CFAF 10 billion of its debt to oil companies. The company also successfully launched a CFAF 15 billion bond issue on the regional market.

44. The problems in the first half of the year led the management of SENELEC to implement a proactive plan to significantly improve collection and put tight controls on spending. This should have brought the basic balance to CFAF 31.4 billion by end-December 2003, compared with an initial target of CFAF 30.1 billion. In addition, to address the shortage in working capital, SENELEC negotiated a financing package (bank and treasury bills) for CFAF 18 billion, which should help it meet its short-term commitments. Finally, the program target of zero outstanding payment arrears by end-December 2003 should have been achieved.

#### **IV. ECONOMIC OUTLOOK FOR 2004**

45. The year 2004 should see sustained economic growth of about 6 percent. Agricultural growth should be steady, with production levels returning to their long-term trend, while industrial growth, especially in the chemical sector, and growth in public works should exceed 2003 levels. Inflation will probably remain moderate, with a projected change in the GDP deflator of 1.4 percent. The current external account deficit (including current official transfers) should narrow to 5.7 percent of GDP from 6.6 percent in 2003, mainly thanks to a rise in chemical exports to production-capacity level, and to the absence of the exceptional factors that have made the import bill so large in 2003 (the large volume of food imports and the stock building of petroleum products).

46. Consolidation of public finances will continue. The basic fiscal surplus, excluding HIPC Initiative-related expenditures and structural reform costs, will improve slightly from 1.0 percent of GDP in 2003 to 1.3 percent of GDP in 2004. The overall fiscal deficit, including grants, will increase from 1.9 percent of GDP in 2003 to 2.5 percent in 2004, as a consequence of lower grant levels, a faster execution of the medium-term capital expenditure program, and the cost of structural reforms, which will rise in compliance with the priorities defined in the PRSP. The 2004 budget was adopted by the National Assembly on December 12, 2003. The main parameters of this budget are as follows: (i) projected fiscal revenue of CFAF 748.6 billion, which implies a tax burden of 18.5 percent of GDP, up 0.2 percentage point of GDP from 2003, reflecting ongoing efficiency gains in tax administration, especially with the entry into force of the composite tax, CGU; (ii) wage expenditure categories of CFAF 225.9 billion, reflecting the moderate financial impact of the recruitment program (5,000 new civil servants recruited in the last quarters of 2003 and 2004); (iii) growth in the other current expenditure (CFAF 284.8 billion) and in capital expenditure funded with internal resources (CFAF 189.9 billion, of which CFAF 10.9 billion was the unspent balance of HIPC expenditures under the 2003 supplementary budget that could not be executed in 2003), the latter of which will slightly exceed nominal GDP growth so as to accommodate spending in priority sectors; and (iv) an appropriation of CFAF 26.8 billion for the temporary costs of structural reforms, in particular to cover the recapitalization of the postal service (CFAF 15.5 billion) and the social security arrears of liquidated companies and local authorities (CFAF 11.3 billion for IPRES and CSS).

47. Furthermore, the balance of correspondent accounts is expected to drop by CFAF 5 billion in 2004, thus reversing the buildup of funds in these accounts at end-2002 and during the first part of 2003. The overall fiscal balance, including grants, should reach a deficit of CFAF 101.3 billion. The external financing to cover the deficit is higher than originally expected under the program because the first tranches of the World Bank Private Sector Adjustment Credit (PSAC) and the African Development Bank program were deferred from 2003 to 2004. The net government position in the banking system should therefore improve by about CFAF 28 billion.

#### **V. PROGRAM MONITORING**

48. To ensure effective implementation of the program, the government took the prior actions listed in Table 3 of the TMU (Appendix I, Attachment I, Annex II). The execution of the government program until the end of 2003 will be monitored with the help of quantitative performance criteria and indicative targets (see Table 1 of the TMU). Preliminary quantitative performance criteria and indicative targets have been set for the first two quarters of 2004 (see Table 1 of the TMU). They will be finalized on the occasion of the second program review.



Senegal - Recruitment Strategy for Civil Service, 2003-05

	2002		2003-05		2005		Objectives
	Number at year-end	Ratio	Recruitment net	Increase	Number at year end	Ratio	
<b>Education</b>	25,243	38%	2,736	11%	27,979	34%	<p>Scolarization gross rate of 94% in 2008 and 100% in 2010.</p> <p>Middle and general secondary education: 50 students/classroom in middle school, 40 in secondary school</p>
<b>Health</b>	5,140	8%	1,740	34%	6,880	8%	<p>Reducing the gap with the standards set up by the World Health Organization (WHO)</p> <p>- 1 physician for every 11,300 persons (WHO standard: 1 for every 10,000)</p> <p>- 1 nurse for every 5,230 persons (WHO standard : 1 for every 300)</p> <p>- 1 mid-wife for every 5,300 women in age of reproduction (WHO standard: 1 for every 300)</p>
Physicians	452	1%	434	96%	886	1%	
Nurses	1,627	2%	285	18%	1,912	2%	
Mid-wives	587	1%	194	33%	781	1%	
Others	2,474	4%	827	33%	3,301	4%	
<b>Justice</b>	704	1%	1,052	149%	1,756	2%	<p>Good judicial governance: accessibility, transparency and celerity of the justice system</p> <p>- 1 magistrate for every 15,000 persons in Dakar, 1 for every 50,000 elsewhere (international standard: 1 for every 1,000)</p> <p>- 4 clerks by jurisdiction</p>
Magistrates	305	0.5%	186	61%	491	1%	
Court Clerks	111	0.2%	105	95%	216	0.3%	
Administrative assistants	288	0.4%	761	264%	1,049	1%	
<b>Finances</b>	2,543	4%	1,299	51%	3,842	5%	<p>Better tax collection and improvement of expenditure control</p> <p>- 1 agent for every 10,000 persons (average 13 African countries: 1 for every 11,900)</p> <p>- application of WAEMU harmonized customs tariffs and improvement of its administration</p> <p>- put in place the WAEMU accounting plan, speed up the production of management accounts and improve the financial accounting of local collectivities.</p>
Tax and customs	537	1%	450	84%	987	1%	
Custom duties	1,576	2%	450	29%	2,026	2%	
Treasury	430	1%	399	93%	829	1%	
<b>Armed Forces</b>	14,723	22%	2,879	20%	17,602	21%	<p>Good governance with respect to security, logistical support for decentralized basic health care</p>
Army	11,128	17%	2,079	19%	13,207	16%	
Police ( <i>Gendarmerie</i> )	3,595	5%	800	22%	4,395	5%	
<b>Security</b>	7,525	11%	2,718	36%	10,243	12%	<p>Increased capacity for security services and protection of property</p> <p>- 1 guardian per prisoner</p> <p>- 1 policeman for every 1,800 persons</p> <p>- 1 fireman for every 4,500 persons</p>
Penitentiary Service	1,002	1%	780	78%	1,782	2%	
Police	4,906	7%	994	20%	5,900	7%	
Firemen	1,426	2%	539	38%	1,965	2%	
National park	191	0%	405	212%	596	1%	
<b>Economy 1/</b>	4,291	6%	1,154	27%	5,445	7%	<p>Insure the normal functioning and the quality of service</p>
<b>Sovereignty 2/</b>	6,831	10%	1,422	21%	8,253	10%	<p>Insure the normal functioning and the quality of services</p>
<b>Total of civil servants</b>	67,000	100%	15,000	22%	82,000	100%	
<b>Contractual agents and volunteers 3/</b>	14,039	21%	7,793	56%	21,832	27%	
<b>Education</b>	13,731	20%	7,793	57%	21,524	26%	
<b>Other</b>	308	0%	0	0%	308	0%	

Source: Senegalese authorities.

1/ Agriculture, energy, hydraulic, infrastructure, tourism and other public services.

2/ Presidency, Office of the Prime Minister, foreign affairs, civil service, sport, culture and relations with institutions.

3/ Not civil servants; ratios in percent of total of civil servants.

INTERNATIONAL MONETARY FUND

SENEGAL

**Technical Memorandum of Understanding**

Dakar, January 26, 2004

1. This technical memorandum of understanding (TMU) defines the quantitative and structural performance criteria, indicative targets and structural benchmarks to monitor the program supported by the first annual arrangement under the Poverty Reduction and Growth Facility. It also establishes the terms and time limits for transmitting the data that will enable Fund staff to monitor program implementation and provides numerical illustrations of these criteria and benchmarks based on past outcomes.

**I. DEFINITION**

2. 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 separate legal personality.

**II. QUANTITATIVE PERFORMANCE CRITERIA**

3. In Country report No. 03/167, quantitative performance criteria were set for December 31, 2003, for the basic fiscal balance excluding temporary costs of structural reforms and spending financed with resources made available as a result of debt relief under the HIPC Initiative (HIPC-related resources); the change in net bank credit to the government; and the stock of arrears of SENELEC. For September 30, 2003, indicative targets were set for the same items. In this TMU, preliminary indicative targets and performance criteria for the same items are set for March 31 and June 30, 2004. These targets and criteria will be finalized on the occasion of the second review. The performance criteria pertaining to the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government, as well as domestic and external payments arrears, will be monitored on a continuous basis.

**A. Basic Fiscal Balance, Excluding Temporary Costs of Structural Reforms and Spending Financed with HIPC-Related Resources**

**Definition**

4. The basic **fiscal balance** is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure financed from abroad and gross lending. It includes the balance of special and correspondent accounts at the Treasury. Temporary costs of structural reforms and spending financed with HIPC-related resources are excluded from the definition of the basic balance for the purposes of program

were listed, on an indicative basis, at the outset of the program (Table below). Detailed spending plans for these temporary costs of structural reforms were expected to be specified in a supplementary budget plan in 2003, after consultation with Fund staff. In the event, these costs did not materialize in 2003. Thus the supplementary budget of September 2003 contained only expenditures financed with not-yet allocated HIPC-related resources, as well as emergency spending in rural areas.

Indicative Temporary Costs of Structural Reforms in 2003  
(In billions of CFA francs; cumulative from the beginning of the year)

	3/31/03	6/30/03	9/30/03	12/31/03	12/31/03 Rev. Proj.	3/31/04	6/30/04
Groundnut Sector	0.0	0.0	...				
Recapitalization of SONACOS prior to sale	0.0	0.0	...	...	...		
Severance pay	0.0	0.0	...	...	...		
Other costs pertaining to the privatization of SONACOS	0.0	0.0	...	...	...		
SN La Poste	0.0	0.0	...	...	...		15.5
Recapitalization prior to measures to make the Post office autonomous from the treasury correspondent account	0.0	0.0	...	...	...	...	...
Other costs	0.0	0.0	...	...	...		
IPRES	0.0	0.0	...	...	...	11.3	11.3
Recapitalization	0.0	0.0	...	...	...		
Other costs	0.0	0.0	...	...	...		
Judicial system	0.0	0.0	...	...	...		
Specific training program for judges and clerks in commercial matters	0.0	0.0	...	...	...		
Other costs	0.0	0.0	...	...	...		
TOTAL	0.0	0.0	7.5	15.0	0.0	11.3	26.8

Basic Fiscal Balance Excluding Temporary Costs of Structural Reforms and Spending  
Financed with HIPC-Related Resources  
(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/03 Indicative Target	6/30/03 Criterion	9/30/03 Indicative Target	12/31/03 Criterion	12/31/03 Projection	3/31/04 Prel. Target	6/30/04 Prel. Criterion
I. Budgetary revenue	169.1	359.2	538.6	728.3	721.3	179.9	382.0
II. Total expenditure and net lending	195.4	398.5	608.3	883.6	887.4	212.7	439.9
III. Capital expenditure financed from abroad	34.6	77.4	102.1	150.0	150.0	35.8	73.1
IV. Drawings on loans to be on-lent	2.4	4.0	9.6	16.0	16.0	0.5	3.2
V. Basic fiscal balance = I – (II – III – IV)	10.7	42.1	42.0	10.6	-0.1	3.5	18.4
VI. Temporary costs of structural reforms	0.0	0.0	7.5	15.0	0.0	11.3	26.8
VII. Expenditures financed with HIPC- related resources	1.5	3.1	12.3	32.4	36.9	2.0	4.0
VII. Basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC- related resources = V + VI + VII	12.2	45.2	61.8	58.1	36.7	16.8	49.2

### Performance criteria

5. The performance criterion for the basic fiscal balance excluding temporary costs of structural reforms and spending financed with debt relief under the HIPC Initiative is a **floor** set at CFAF 58.1 billion on December 31, 2003. The preliminary indicative target on March 31, 2004 and the preliminary performance criterion on June 30, 2004 are floors set at CFAF 16.8 and 49.2 billion, respectively.

### Reporting requirements

6. During the program period, the authorities will report monthly to Fund staff **provisional data** on the basic fiscal balance excluding temporary costs of structural reforms and spending financed with HIPC-related resources with a lag of no more than 45 days. The data for **revenues, expenditures, special accounts and correspondent accounts** that are included in the calculation of the basic fiscal balance, for **expenditure financed with HIPC-related resources and for spending for temporary costs of structural reforms will be drawn from preliminary treasury account balances**. Spending for temporary costs of structural reforms will also be provided by the authorities in the form of a table similar to the

one above with a lag of no more than 45 days. 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 provisional data.**

## B. Change in Net Bank Credit to the Government

### Definitions

7. The definition of government for the purpose of calculating net bank credit to the government is the one applied by the BCEAO. It is broader than the definition of government in paragraph 2. Net bank credit to the government reflects the net credit position of the government—including postal checking accounts (CCP)—vis-à-vis the central bank and commercial banks. Net bank credit to the government is the difference between the government's gross borrowing from the banking system and its claims against the banks. Government claims include treasury cash holdings, deposits (including earmarked privatization receipts and other resources such as loans and grants) at the central bank, deposits in commercial banks, and secured liabilities (*obligations cautionnées*). The government's debt to the banking system includes central bank credit (mainly statutory advances, IMF net credit, refinancing of secured liabilities, the deposit by Kuwait, and government securities held by the central bank), commercial bank credit (including government securities held by resident commercial banks), ex-ONCAD securities, and private deposits at the CCPs. Government securities held outside the Senegalese banking system are not included in net bank credit to the government. The net bank credit to the government as calculated by the BCEAO serves as the basis for program monitoring.

8. The change in net bank credit to the government as of the date for the quantitative performance criterion or benchmark indicated is defined as the difference between the stock on the date indicated and the stock on December 31 of the preceding year.

### Net Bank Credit to the Government (In billions of CFA francs)

	12/31/02 Revised Estimate	3/31/03 Indicative Target	6/30/03 Criterion	9/30/03 Indicative Target	12/31/03 Criterion	12/31/03 Proj.	3/31/04 Prel. Target	6/30/04 Prel. Criterion
I. Total government claims	251.3	231.3	247.4	255.6	235.0	219.2	199.5	211.8
II. Total government debts	357.8	346.7	342.7	351.5	346.1	332.3	316.5	306.6
III. Net bank credit to the government (II– I)	106.5	115.4	95.3	95.9	111.1	113.1	117.0	94.8
IV. Change in net bank credit to the government, cumulative from beginning of the year	-75.4	7.8	-12.2	-11.7	3.5	6.6	3.9	-18.3

**Adjusters**

9. The ceiling on the cumulative change in net bank credit to the government will be lowered (raised) by the amount by which disbursements of external budgetary assistance (defined as budgetary grants, program disbursements, and debt relief, excluding Fund resources and HIPC Initiative debt relief) exceed (fall short of) program projections. The adjustment will be for the full amount of any excess disbursement but will be limited to CFAF 20 billion in the event of a shortfall.

**Programmed External Budgetary Assistance**  
(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/03		6/30/03		09/30/03		12/31/03		3/31/04	6/30/04
	Proj.	Est.	Proj.	Est.	Proj.	Rev. Proj.	Proj.	Rev. Proj.	Proj.	Proj.
European Union	7.4	0.0	12.6	0.0	22.1	0.0	29.4	18.8	1.3	1.3
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.0	11.3	26.8
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.0	8.7	0.0	0.0	0.0
Taiwan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3
<b>Total</b>	<b>7.4</b>	<b>0.0</b>	<b>12.6</b>	<b>0.0</b>	<b>22.1</b>	<b>0.0</b>	<b>43.2</b>	<b>20.0</b>	<b>12.6</b>	<b>29.4</b>

10. The ceiling will be adjusted for the difference between programmed HIPC-related resources and actual HIPC-related resources. HIPC-related resources consist of debt relief under the HIPC Initiative received during the period under consideration and of the stock of resources in the Treasury's HIPC account at the BCEAO at the end of the preceding year. The ceiling will be lowered (raised) for HIPC-related resources exceeding (falling short of) programmed amounts.

11. The ceiling will also be adjusted for the difference between programmed HIPC-related spending and actual HIPC-related spending. HIPC-related spending consists of expenditures in priority sectors that have been financed with HIPC-related resources. The ceiling will be raised (lowered) for HIPC-related spending exceeding (falling short of) programmed amounts.

12. The ceiling will be adjusted for the difference between the amount of programmed costs for structural reforms and the actual costs of structural reforms. The ceiling will be lowered (increased) for expenditures on structural reforms that fall short of (exceed) the programmed amount for temporary costs of structural reforms. The ceiling will be raised only when these additional costs are not covered by additional, not programmed, external budgetary assistance as defined in paragraph 9.

13. The ceiling will be adjusted for the difference between programmed and actual privatization receipts. The ceiling will be lowered (raised) for privatization receipts that exceed (fall short) of the programmed amount. The programmed amount for privatization

receipts is CFAF 1.1 billion at September 30, 2003; CFAF 1.1 billion at December 31, 2003; CFAF 0.0 billion at March 31, 2004; and CFAF 0.0 billion at June 30, 2004. In addition, the ceiling on net bank credit to the government will be lowered by the amount of treasury bills issued in 2003 that are held by an entity or person outside the Senegalese banking system.

#### **Performance criteria**

14. The ceiling set as a performance criterion for the cumulative change in net bank credit to the government under the program at December 31, 2003 was set at CFAF 3.5 billion. The ceilings set as preliminary indicative target at March 31, 2004 and performance criterion at June 30, 2004 are respectively CFAF 3.9 and 18.3 billion.

#### **Reporting requirements**

15. The BCEAO will report to Fund staff the provisional data on the net bank credit to the government to Fund staff **monthly, with a lag of no more than one month after the end of each observation period**. Final data will be reported with a maximum lag of two months.

16. Data on privatization receipts will also be reported monthly, be drawn from preliminary balances of treasury accounts, and be transmitted to Fund staff with a lag of no more than 45 days. Final data will be provided as soon as the final treasury accounts are available, but no more than **two months after the reporting of provisional data**.

### **C. Stock of Arrears of SENELEC**

#### **Definition**

17. The stock of arrears of SENELEC includes all payments due and not paid.

#### **Performance criteria**

18. The ceiling set as a performance criterion for the stock of arrears of SENELEC is CFAF 0.0 billion on December 31, 2003. The ceiling set as an indicative target is CFAF 0.0 billion on September 30, 2003. The ceilings set as a preliminary indicative target on March 31, 2004 and as a preliminary performance criterion on June 30, 2004 are CFAF 0.0 billion.

#### **Reporting requirements**

19. The government will report to Fund staff monthly, with a lag of no more than one month after the end of each observation period, the stock of arrears of SENELEC, the newly contracted debt, any new accumulation of arrears, and the debt service and arrears payments made, as well as flows of receipts, current expenditure and investment and debt service expenditure that form part of the monthly calculation of outstanding payments arrears.

#### **D. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Government**

##### **Definition**

20. This performance criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 12274-(00/85), adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received.

21. The definition of debt as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: "(a) For the purposes of this guideline, 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 some time 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 set out in point 9(a), 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."

22. Any external debt with a grant element of less than 35 percent is considered nonconcessional, with the exception of IMF lending under the Poverty Reduction and Growth Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.



23. For purposes of this performance criterion, government is understood to include the government as defined in paragraph 2 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned independent companies (*sociétés nationales*).

**Performance criterion**

24. Within the context of the program, the government as defined in paragraph 23 above will not contract or guarantee nonconcessional external debt. This performance criterion is monitored on a continuous basis and does not apply to debt rescheduling and restructuring operations, short-term import-related credit and short-term pre-export financing secured on export contracts. Short-term credit refers to maturities of less than one year. It does not apply also to government bonds held by residents of countries in the West African Economic and Monetary Union.

**Reporting requirements**

25. 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.

**E. External Payments Arrears**

**Definition**

26. External payments arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government, with the exception of external payment arrears arising from government debt being renegotiated with creditors including Paris Club creditors. Debt is understood as defined in paragraph 21 above.

**Performance criterion**

27. Under the program, the government will not accumulate any external payments arrears. This performance criterion will be monitored on a continuous basis.

**Reporting requirements**

28. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed.

## **F. Domestic Payments Arrears**

### **Definition**

29. Domestic payments arrears are duly certified domestic expenditure commitments cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared.

### **Performance criterion**

30. Under the program, the government will not accumulate any domestic payments arrears. This performance criterion will be monitored on a continuous basis.

### **Reporting requirements**

31. The authorities will report to Fund staff any accumulation of domestic payments arrears as soon as the 90 days period mentioned in paragraph 29 above has elapsed. The government will also keep track of expenditure commitments (*dépenses engagées*) and commitments duly certified but not yet cleared for payment (*dépenses liquidées non encore ordonnancées*) in order to minimize delays in payments.

**III. INDICATIVE TARGETS**

Program indicative targets  
(In billions of CFA francs, cumulative from the beginning of the year,  
unless otherwise indicated)

	3/31/03 Indicative target	6/30/03 Indicative target	9/30/03 Indicative Target	12/31/03 Indicative target	12/31/03 Projection	3/31/04 Prel. target	6/30/04 Prel. target
Tax revenue	166.1	353.2	521.7	698.5	688.5	176.3	375.4
Wage bill	51.8	103.6	154.4	207.4	207.4	55.8	111.7
Current nonwage non- interest expenditures and domestically financed capital expenditures executed through exceptional payments procedures	28.2	28.2	28.2	28.2	28.2	31.7	31.7
Creditor flow in the treasury accounts of SN la Poste (postal service)	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0
Stock of net deposits in the correspondent accounts of the Treasury, excl. local authorities, public agencies, SN La Poste, IPRES and deposit and guarantee accounts	20.0	20.0	20.0	20.0	15.0	15.0	15.0
Stock of guarantee deposits of the government	2.5	2.5	0.0	0.0	3.0	0.0	0.0
Stock of debt of SONACOS	22.3	11.0	0.0	0.0	0.0	...	...
Basic balance of SENELEC	7.0	14.1	22.5	30.1	31.4	10.0	15.0

**A. Floor on Tax Revenue****Definition**

32. Tax revenue is defined as the ones included in the government financial operations table (TOFE).

**Indicative targets**

33. The indicative targets set for tax revenue are floors of CFAF 521.7 billion on September 30, 2003 and CFAF 698.5 billion on December 31, 2003. The preliminary indicative targets set for tax revenue are floors of CFAF 176.3 billion on March 31, 2004 and CFAF 375.4 billion on June 30, 2004.

### **Reporting requirements**

34. The government will report to Fund staff preliminary tax revenue data monthly, with a lag of no more than one month, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

### **B. Ceiling on the Wage Bill**

#### **Definition**

35. The wage bill is defined as all government expenditure on wages, other compensation, bonuses, allowances, and social benefits granted to or paid for the benefit of civil servants and other public employees.

#### **Indicative targets**

36. The indicative targets set for the wage bill are ceilings of CFAF 154.4 billion on September 30, 2003, and CFAF 207.4 billion on December 31, 2003. The preliminary indicative targets are CFAF 55.8 billion on March 31, 2004 and CFAF 111.7 billion on June 30, 2004.

### **Reporting requirements**

37. The government will report monthly to Fund staff the wage bill data, with a lag of no more than 45 days after the end of the month under consideration.

### **C. Ceiling on the Amount of Current Non-Wage Non-Interest Expenditures and Domestically Financed Capital Expenditures Executed Through Exceptional Budgetary Procedures**

#### **Definition**

38. Current nonwage non-interest expenditures are all current expenditures other than wage and interest payments as reported in the government financial operations table. Domestically financed capital expenditures are all capital expenditures that have not been financed from abroad. Exceptional payments procedures are advance payments (*paiements par anticipation*) and treasury advances (*avances de trésorerie*).

#### **Indicative targets**

39. The indicative targets set for the sum of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional budgetary procedures are ceilings of CFAF 28.2 billion on September 30, 2003, and

December 31, 2003. The preliminary indicative targets are ceilings of CFAF 31.7 billion on March 31, 2004 and June 30, 2004.

### **Reporting requirements**

40. During the program period, the authorities will report monthly to Fund staff **provisional data** on current non-wage non-interest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, with a lag of no more than 45 days. The data 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 no more than **two months after the reporting of provisional data**.

### **D. Ceiling on the Stock of Net Deposits in the Correspondent Accounts of the Treasury, Excluding the Correspondent Accounts of Local Authorities, of Public Agencies, of SN La Poste, of IPRES and the Deposit and Guarantee Accounts**

#### **Definition**

41. The stock of net deposits in the correspondent accounts of the Treasury is defined as the sum of the net credit balance in the entry balance sheet (*balance d'entrée*) of the considered year and the net inflows in those accounts during the considered period. In the standard list of correspondent accounts of the Treasury, the correspondent accounts excluded from this benchmark are: the accounts of local authorities, numbered 431 through 436; the accounts of public agencies, numbered 442; the accounts of SN La Poste, numbered 440-001; the account of IPRES with the number 462.01; and the deposit and guarantee accounts, numbered 466.13.

#### **Indicative targets**

42. The indicative targets set for the net deposits in the correspondent accounts of the Treasury, excluding the correspondent accounts of local authorities, of public agencies, of SN La Poste, of IPRES, and deposit and guarantee accounts, are ceilings of CFAF 20.0 billion on September 30, 2003 and December 31, 2003. The preliminary indicative targets are ceilings of CFAF 15 billion on March 31, 2004 and June 30, 2004.

#### **Reporting requirements**

43. During the program period, the authorities will report monthly to Fund staff **provisional data** on net deposits in the correspondent accounts of the Treasury, excluding the correspondent accounts of local authorities, of public agencies, of SN La Poste, of IPRES and of deposit and guarantee accounts, with a lag of no more than 45 days. The data 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 no more than **two months after the reporting of provisional data**.

### **E. Floor on the Creditor Flow of the SN La Poste (Postal Service) Treasury Accounts**

#### **Definition**

44. The creditor flow on any date is defined as the difference between the cumulative receipts on the accounts of SN La Poste at the Treasury and cumulative withdrawals from the same accounts since the beginning of the year under consideration.

#### **Indicative targets**

45. The indicative targets for the creditor flow of the SN La Poste treasury accounts are floors of CFAF 0.0 billion at September 30 and December 31, 2003. The preliminary indicative targets are floors of CFAF 0.0 billion at March 31 and June 30, 2004.

#### **Reporting requirements**

46. The government will report to Fund staff the provisional flows of the SN La Poste accounts on a monthly basis, with a lag of no more than 45 days. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than **two months after the reporting of provisional data**.

### **F. Ceiling on Government Guarantee Deposits**

#### **Definition**

47. Government guarantee deposits are defined as government deposits in local and foreign banks used to guarantee bank loans.

#### **Indicative targets**

48. The indicative targets for the stock of guarantee deposits are ceilings of CFAF 0.0 billion for September 30, 2003 and December 31, 2003. The preliminary indicative targets are ceilings of CFAF 0 billion for March 31, 2004 and June 30, 2004.

#### **Reporting requirements**

49. The government will report to Fund staff monthly, with a lag of no more than one month after the end of each observation period, the stock of government guarantee deposits.

### **G. Stock of Debt of SONACOS**

#### **Definition**

50. The stock of debt of SONACOS includes all loans contracted with local and foreign banks. It includes also discounted letters of credit for which the respective export contracts have not yet been executed.

### **Indicative targets**

51. The indicative targets for the stock of debt of SONACOS are ceilings of CFAF 0.0 billion on September 30, 2003 and December 31, 2003.

### **Reporting requirements**

52. The government and the BCEAO will report monthly to Fund staff the stock of debt of SONACOS, the new debt contracted, and the debt-service payments made, with a lag of no more than one month after the end of each period of observation.

## **H. Basic Balance of SENELEC**

### **Definition**

53. The basic balance of SENELEC is defined as the difference between (i) total receipts from its clients, including the administration, on a gross-of-tax basis (excluding subsidies), and arrears collected, on a cash basis; and (ii) current operating expenses on a gross-of-tax, invoice basis, including energy, personnel, other operating expenses, fees collected by SENELEC on behalf of other entities, and its net financial charges (interest, fees, and commissions).

### **Indicative targets**

54. The indicative targets for the basic balance of SENELEC are floors of CFAF 22.5 billion on September 30, 2003 and CFAF 30.1 billion on December 31, 2003. The preliminary indicative targets are floors of CFAF 10 billion on March 31, 2004, and CFAF 15 billion on June 30, 2004.

### **Reporting requirements**

55. The government will report monthly to Fund staff all information needed to calculate the basic balance of SENELEC with a lag of no more than one month after the end of each observation period.

## **IV. PRIOR ACTIONS**

### **A. Prior Action I for the conclusion of the first program review**

56. Call for bids on the concession of an Independent Power Producer (IPP) contract to operate a 60 MW production plant, under the conditions outlined in the Energy Sector Policy Letter.

### **B. Prior Action II for the conclusion of the first program review**

57. Call for international bids on the privatization of SONACOS.

**V. ADDITIONAL INFORMATION FOR PROGRAM MONITORING**

58. The authorities will report to Fund staff the following, with a maximum lag of 45 days:
- the monthly preliminary government financial operations table (TOFE);
  - tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
  - the monthly amount of payment orders issued;
  - preliminary treasury account balances, on a monthly basis;
  - the quarterly report of the Direction de la Dette et des Investissements (DDI) on execution of investment programs; and
  - any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.
59. The central bank will report to Fund staff the following:
- a. the monetary survey, on a quarterly basis, with a lag of no more than two months;
  - b. lending and deposit rates, on a monthly basis; and
  - c. the usual banking supervision indicators for bank and nonbank financial institutions, on a quarterly basis.



Table 1. Senegal: Quantitative Performance Criteria and Indicative Targets for 2003, and Preliminary Quantitative Performance Criteria and Indicative Targets for the first half of 2004 1/  
(In billions of CFA francs; cumulative from the beginning of the year, unless otherwise indicated)

	March 31, 2003				June 30, 2003				September 30, 2003				December 31, 2003		March 31, 2004	June 30, 2004		
	Indicative Target	Indicative Target after adjusters	Actual	Status	Performance criteria	Criteria after adjusters	Actual	Status	Indicative Target	Indicative Target after adjusters	Actual	Status	Performance criteria	Projection	Preliminary Indicative Target	Preliminary Performance Criteria		
<b>Performance Criteria and Indicative Targets</b>																		
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 2/	12.2		40.9	yes	45.2			83.5	yes	61.8			68.3	yes	58.1	36.7	16.8	49.2
Ceiling on the cumulative change in net bank credit to the government	7.8	15.2	-29.6	yes	-12.2	-10.8		-74.2	yes	-11.7	-5.4		-65.1	yes	3.5	6.6	3.9	-18.3
Ceiling on government domestic payments arrears 3/	0.0		0.0	yes	0.0			0.0	yes	0.0			0.0	yes	0.0	0.0	0.0	0.0
Ceiling on government external payments arrears 3/	0.0		0.0	yes	0.0			0.0	yes	0.0			0.0	yes	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/	0.0		0.0	yes	0.0			0.0	yes 4/	0.0			9.0 4/	no	0.0	9.0 4/	0.0	0.0
Ceiling on the stock of arrears of SENELEC	0.0		13.7 5/	no	0.0			0.0	yes	0.0			0.0	yes	0.0	0.0	0.0	0.0
<b>Indicative Targets</b>																		
Floor on tax revenue	166.1		156.3	no	353.2			343.3	no	521.7			498.6	no	698.5	688.5	176.3	375.4
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed expenditures executed through exceptional procedures	28.2		23.9	yes	28.2			26.6	yes	28.2			31.8	no	28.2	31.8	31.7	31.7
Ceiling on the wage bill	51.8		50.2	yes	103.6			100.8	yes	154.4			151.7	yes	207.4	207.4	55.8	111.7
Floor on the creditor flow in the treasury accounts of the postal service	-2.0		-0.9	yes	-2.0			0.6	yes	0.0			-2.5	no	0.0	-2.5	0.0	0.0
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	20.0		22.2	no	20.0			28.8	no	20.0			33.8	no	20.0	15.0	15.0	15.0
Ceiling on guarantee deposits of the government	2.5		4.5	no	2.5			4.5	no	0.0			4.5	no	0.0	4.5	0.0	0.0
Ceiling on the stock of debt of SONACOS	22.3		16.1	yes	11.0			10.2	yes	0.0			3.5	no	0.0	3.5	-	-
Floor on the basic balance of SENELEC	7.0		4.0 5/	no	14.1			5.8 5/	no	22.5			17.9 5/	no	30.1	31.4	10.0	15.0
<b>Memorandum items:</b>																		
External budgetary assistance, excluding IMF	7.4		0.0		12.6			0.0		22.1			1.3		43.2	20.0	12.6	29.4
Grants	7.4		0.0		12.6			0.0		22.1			1.3		29.4	20.0	1.3	2.6
Loans	0.0		0.0		0.0			0.0		0.0			0.0		13.9	0.0	11.3	26.8
Total HIPC spending	1.5		1.4		3.1			1.4		12.3			2.4		32.4	36.9	2.0	4.0

1/ Criteria, indicative targets and adjusters are defined in the Technical Memorandum of Understanding (TMU).

2/ Overall fiscal balance, excluding foreign-financed investment expenditure and gross lending. Fiscal revenue excludes privatization receipts, which are treated as a financing item.

3/ This criterion will be monitored on a continuous basis.

4/ At end-July 2003, the electricity parastatal SENELEC contracted a CFAF 9 billion non-concessional loan from the West African Development Bank (BOAD).

5/ Provisional number.

Table 2. Senegal: Quarterly Government Financial Operations, 2003 to mid-2004

	2003								2004	
	March		June		September		December		March	June
	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
	(In CFA francs billion, cumulative since the beginning of the year)									
Total revenue and grants	195.3	170.1	416.8	374.2	613.2	560.4	832.6	816.2	195.7	417.3
Revenue	169.1	161.1	359.2	357.0	538.6	523.9	728.3	721.3	179.9	382.0
Tax revenue	166.1	156.3	353.2	343.3	521.7	498.6	698.5	688.5	176.3	375.4
Nontax revenue 1/	3.0	4.9	6.0	13.7	16.9	25.3	29.8	32.8	3.6	6.6
Grants	26.2	9.0	57.6	17.2	74.6	36.5	104.4	95.0	15.8	35.3
Budgetary	7.4	0.0	12.6	0.0	22.1	1.3	29.4	20.0	1.3	2.6
Budgeted development projects	18.8	9.0	45.0	17.2	52.5	35.2	75.0	75.0	14.5	32.7
Total expenditure and net lending	195.4	151.5	398.5	329.1	608.3	554.0	883.6	887.4	212.7	439.9
Current expenditure	120.9	118.8	248.4	248.7	373.1	384.5	509.8	532.2	134.5	278.1
Wages and salaries	51.8	50.2	103.6	100.8	154.4	151.7	207.4	207.4	55.8	111.7
Interest due 1/	10.2	8.8	19.6	24.2	28.1	32.3	38.9	46.0	9.9	26.2
Of which: external 2/	7.7	7.7	15.7	21.8	22.8	28.4	30.6	38.9	7.7	22.2
Other current expenditure	58.9	59.8	125.2	123.7	190.6	200.5	263.5	278.8	68.8	140.2
Transfers and subsidies	26.5	45.3	59.6	67.8	92.8	109.5	131.0	146.3	35.8	72.2
Goods and services	32.4	14.6	65.6	55.9	97.9	91.0	132.5	132.5	33.0	68.0
Capital expenditure	65.7	37.7	139.6	104.2	209.6	206.8	318.1	318.1	68.0	137.1
Domestically financed	31.1	8.0	62.2	51.1	107.5	111.5	168.1	168.1	32.2	64.0
Externally financed 3/	34.6	29.7	77.4	53.1	102.1	95.3	150.0	150.0	35.8	73.1
Treasury special accounts and correspondents (net)	8.0	-4.9	9.0	-24.0	8.0	-33.2	8.0	1.8	-1.1	-2.1
Net lending	0.8	-0.1	1.4	0.2	2.7	-5.1	8.0	2.5	0.0	0.0
Additional HIPC Initiative expenditures (to be identified)	0.0	0.0	0.0	0.0	7.4	1.0	24.7	32.8	0.0	0.0
Temporary costs of structural reforms	0.0	0.0	0.0	0.0	7.5	0.0	15.0	0.0	11.3	26.8
Overall fiscal balance (including grants)	-0.1	18.6	18.3	45.1	4.9	6.4	-51.0	-71.2	-17.0	-22.6
Basic fiscal balance 4/	10.7	39.4	42.1	82.1	42.0	67.3	10.6	-0.1	3.5	18.4
Excl. temp. costs of structural reforms and HIPC Initiative	12.2	40.9	45.2	83.5	61.8	69.7	58.1	36.7	16.8	49.2
Financing	0.1	-18.6	-18.3	-45.1	-4.9	-6.4	51.0	71.2	17.0	22.6
External financing	12.0	12.9	18.2	25.6	33.6	49.1	50.2	71.1	20.3	48.7
Drawings	18.2	20.8	36.4	36.9	59.2	62.3	91.0	91.0	33.1	70.4
Treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.3	26.8
Project loans	18.2	20.8	36.4	36.9	59.2	62.3	91.0	91.0	21.8	43.6
Amortization due	-13.1	-14.7	-30.4	-33.2	-44.7	-52.8	-65.5	-71.9	-13.6	-37.1
Debt relief and HIPC Initiative interim assistance 5/	6.9	6.8	12.2	21.9	19.2	31.6	24.7	44.0	4.8	19.4
Treasury bills issued in UEMOA	0.0	0.0	0.0	0.0	0.0	8.0	0.0	8.0	-4.0	-4.0
Domestic financing	-11.9	-38.5	-39.5	-71.5	-41.6	-58.6	-19.1	0.0	-3.3	-26.1
Banking system 6/	7.8	-29.6	-15.2	-74.2	-14.7	-65.1	-2.5	6.6	3.9	-18.3
BCEAO	13.5	-20.7	-8.3	-55.4	-24.9	-44.9	-11.4	1.9	15.1	-3.4
Statutory advances	0.0	0.0	-1.6	-1.5	-3.1	-3.1	-4.7	-4.7	-1.7	-3.3
Treasury bonds	-0.9	0.2	-0.9	0.2	-1.8	-0.8	-1.8	-1.8	-0.9	-0.9
IMF (net) 6/	-5.9	-5.9	-10.1	-7.3	-15.9	-13.2	-21.5	-19.9	-3.4	-10.7
Changes in deposits and treasury cash holdings	20.3	-15.0	4.2	-46.8	-4.0	-27.8	16.6	28.3	21.1	11.5
HIPC account	-6.6	-2.4	-11.2	-9.2	-10.1	-17.3	7.7	15.2	0.4	-12.2
Other treasury accounts and cash holdings	26.9	-12.6	15.4	-37.6	6.1	-10.5	8.9	13.1	20.7	23.7
Commercial banks	-5.7	-9.4	-6.9	-20.5	10.2	-23.1	8.9	4.7	-11.2	-14.9
Maturing of old government paper	-5.7	-6.7	-6.9	-6.7	-12.8	-10.0	-14.1	-14.1	-3.7	-7.4
Emission of new Treasury bills	0.0	0.0	0.0	0.0	23.0	15.0	23.0	15.0	-7.5	-7.5
Deposits and "obligations cautionnées"	0.0	-2.7	0.0	-14.7	0.0	-28.1	0.0	3.8	0.0	0.0
Nonbank financing	-19.7	-8.9	-24.3	2.7	-26.9	6.5	-16.6	-6.6	-7.2	-7.8
Of which: privatization receipts	0.0	0.0	0.0	0.0	1.1	1.1	1.1	1.1	0.0	0.0
complementary period	-14.9	-10.1	-14.9	-10.5	-14.9	-19.5	0.0	0.0	-10.5	-10.5
Errors and omissions	0.0	7.0	0.0	0.8	0.0	3.2	0.0	0.0	0.0	0.0
Financing gap 7/	0.0	0.0	3.0	0.0	3.0	0.0	19.9	0.0	0.0	0.0
IMF	0.0	0.0	3.0	0.0	3.0	0.0	6.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	8.7	0.0	0.0	0.0
Memorandum items:										
Bank financing, including IMF disbursements	7.8	-29.6	-12.2	-74.2	-11.7	-65.1	3.5	6.6	3.9	-18.3
Total HIPC spending	1.5	1.4	3.1	1.4	12.3	2.4	32.4	36.9	2.0	4.0

Sources: Senegalese authorities; and staff estimates and projections.

1/ Starting from 2003, interest due on domestic debt is gross and interest on deposits from deposits in the Central Bank are recorded in non tax revenues.

2/ The external debt-service figures include all debt directly contracted by the government and part of the government-guaranteed debt serviced by the budget.

3/ Sources of foreign financing are grants, loans, and uses of the proceeds received from Taiwan Province of China.

4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and lending.

5/ Includes from 2000 onward interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank and the Paris Club.

6/ IMF disbursements under the new PRGF-supported arrangement are not included in the "Program" columns, but are included in the "Estimation" and "Revised Program" columns.

7/ In the "Program" columns, financing gap before external budgetary assistance triggered by the new PRGF-supported program.

Table 3: Senegal: Performance Criteria, and Structural Indicators  
for the First Annual Program, 2003

Measures	Timetable	Status
<b>Performance criteria</b>		
Issue a tender for the concession of an Independent Power Producer (IPP) to operate a 60MW production plant, under the conditions outlined in the new Energy Sector Policy Letter.	June 30, 2003	Not completed on time. A prior action for the first review. The tender was issued on November 5, 2003.
Issue a tender for the privatization of SONACOS.	July 31, 2003	Not completed on time. A prior action for the first review. The tender was issued on January 13, 2004.
Publish on an experimental basis monthly treasury accounts ( <i>balance de comptes</i> ) coherent with the new chart of public accounts for the period March through July 2003.	September 30, 2003	Completed on time.
<b>Benchmarks</b>		
Adopt the SNA 93 and publish the 2001 preliminary national accounts revised on that basis.	April 30, 2003	Completed on time.
Submit the end-year treasury accounts ( <i>comptes de gestion</i> ) for the fiscal years 1998, 1999, 2000, and 2001 to the Audit Office ( <i>Cour des Comptes</i> ).	August 31, 2003	Not completed on time. Targeted to be finished by December 2004.
Publish a semiannual audit report on SENELEC's preliminary accounts as of end-June 2003.	September 30, 2003	Not completed on time. Audit report published on January 8, 2004.

**Senegal: Relations with the Fund**  
(As of October 31, 2003)

**I. Membership Status:** Joined August 31, 1962; Article VIII as of June 1, 1996

<b>II. General Resources Account:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	161.80	100.00
Fund holdings of currency	160.33	99.09
Reserve position in the Fund	1.48	0.92

<b>III. SDR Department:</b>	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	24.46	100.00
Holdings	2.72	11.10

<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Poverty Reduction and Growth Facility (PRGF) arrangements	166.77	103.07

**V. Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
PRGF	April 28, 2003	April 27, 2006	24.27	3.47
PRGF	April 20, 1998	April 19, 2002	107.01	96.47
ESAF/PRGF	August 29, 1994	January 12, 1998	130.79	130.79

**VI. Projected Payments to Fund ( with Board-approved HIPC Assistance)**  
(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	5.44	33.29	31.15	26.16	23.75
Charges/interest	0.51	1.07	0.91	0.76	0.64
Total	5.98	34.36	32.06	26.92	24.38

**VII. Implementation of HIPC Initiative:<sup>1</sup>**

	<u>Enhanced Framework</u>
I. Commitment of HIPC Initiative assistance	
Decision point date	June 2000
Assistance committed	
By all creditors (US\$ million) 1/	488.30
<i>Of which:</i> IMF assistance (US\$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	13.24
Interim assistance	13.24
Completion point <sup>2</sup>	...
Additional disbursement of interest income 2/	
<b>Total disbursements</b>	<b>13.24</b>

**IX. Safeguards Assessments:**

The Central Bank of the West African States (BCEAO) is the common central bank of eight west African states, which include Senegal. An on-site safeguards assessment of the BCEAO completed on July 25, 2001, proposed specific remedies to alleviate vulnerabilities that were identified by staff. Based on the 2002 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June

<sup>1</sup> Senegal was not eligible for the HIPC Initiative under the original framework.

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

2003, and the financial statements for the year 2002 were published on the bank's website. The staff will continue its follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process.

**Financial reporting framework.** The Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed by the BCEAO and Fund staff that the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, which have been adopted internationally by other central banks.

**Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed by the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), the BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

The staff follows up regularly on the BCEAO's progress in implementing the recommendations in the context of the Fund's semiannual regional consultation missions.

#### **X. Exchange System:**

Senegal is a member of the West African Monetary Union (WAMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1. On October 31, 2003, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 808.11.

Aspects of the exchange system are also discussed in the recent report on economic developments and regional policy issues of WAEMU (Country report No. 03/70).

Senegal has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

#### **XI. Article IV Consultations:**

Senegal is on the 24-month Article IV consultation cycle, in accordance with the provisions of the decision on consultation cycles. The 2002 Article IV consultation was completed by the Executive Board on April 28, 2003 (Country report No. 03/167, and Country report No. 03/168). In concluding the Article IV consultation, Executive Directors urged the

authorities to continue to build on their prudent fiscal management of recent years, and to implement the structural reform agenda with greater determination and urgency in order to stimulate broad-based economic growth, reduce poverty, and strengthen the public finances. They urged the authorities to take further measures to boost revenue in 2003 and the medium term, while pursuing the objective of creating a more efficient, transparent, and business-friendly tax system. They agreed that an increase in civil service employment may be appropriate to alleviate shortages of staff in social services, domestic security, and revenue administration but underscored the need for the increased hiring to be based on a careful assessment of staffing requirements, and to take into account the long-run impact on the public finances. Finally, they emphasized that decisive action needs to be taken to address the financial and operational problems facing the state-owned electricity and groundnut companies, including carefully-designed privatization of the electricity company (SENELEC) and the groundnut company (SONACOS).

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

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (Country report No. 01/189). An FSAP update is planned for mid-2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP.

A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002.

**XIII. Technical Assistance:**

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	February– March 1996	Strengthening of tax and customs administration.
FAD	Staff/consultants	January– February 1998	Assessment of revenue impact of new external tariff structure (TEC). Advice given to authorities on measures to correct revenue shortfall stemming from the introduction of TEC.
FAD	Staff/consultants	March 1999	Assessment of the reforms to value-added tax (VAT) required to offset the fiscal impact of the TEC.

STA	Staff	March-April 2000	Assessment of real sector statistics and proposal of improvements.
FAD	Staff/consultants	May 2000	Assessment of macrofiscal practices and review of the operation of special accounts at the treasury.
FAD	Staff/consultants	October 2000	Budgetary aspects of petroleum sector policies.
STA	Staff	April 2001	Assessment of the statistical capacity of the Directorate of Forecasting and Statistics.
STA	Staff	September 2001	ROSC assessment of data.
FAD	Staff/consultant	September 2001	Assessment of capacity to track poverty-reducing expenditures.
STA	AFRISTAT	July 2002	Real sector statistics assessment Mission, under GDDS West Africa project.
STA	AFRISTAT	August 2002	National accounts assistance under GDDS West Africa project.
STA	Regional advisor	August 2002	Continued assistance with fiscal sector data under GDDS West Africa project.
STA	AFRISTAT	December 2002	Continued assistance with national accounts and prices statistics under GDDS West Africa project
STA	Regional advisor	February 2003	Continued assistance with fiscal sector data under GDDS West Africa project.
AFRITAC		2003 - Ongoing	Public external debt: Upgrading of information systems; techniques of external debt management.



AFRITAC	November 2003 - Ongoing	Assistance to strengthening the microfinance sector.
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**XIV. Resident Representative**

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Ousmane Doré since August 4, 2003.

**XV. Fourth Amendment of the Articles of Agreement and the Eleventh Quota Review**

The authorities have indicated their agreement with the Fourth Amendment of the Articles of Agreement. The increase in Senegal's quota under the Eleventh General Review of Quotas was completed on February 11, 1999.

**Senegal: IMF-World Bank Relations**  
(As of October 31, 2003)

**Partnership in Senegal's Development**

1. In May 2002, the government of Senegal outlined its development strategy in a Poverty Reduction Strategy Paper (PRSP). The PRSP was presented to the Bank and Fund Boards in December 2002. The government intends to provide an update of the strategy in early 2004. The PRSP sets out the following pillars of the government's strategy: (i) creation of wealth within a healthy macroeconomic framework, (ii) capacity-building and promotion of basic social services, (iii) improving the living conditions of vulnerable groups, (iv) implementation and monitoring/evaluation.
2. Regarding the division of responsibilities between the Bretton Woods institutions, the Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance by way of quantitative performance criteria and indicators. In addition, the Fund's PRGF contains structural conditionality in areas such as electricity and groundnut sector reform, which have a direct bearing on macroeconomic stability and growth prospects.
3. The PRSP and its comprehensive poverty analysis has provided the framework for the new Bank's country assistance strategy (FY03-05). The Bank is currently supporting the implementation of the PRSP in the areas of health/nutrition, education, HIV/AIDS, rural development, transport, water, urban development through the implementation of a portfolio of specific projects, as outlined more fully below.

**Bank Group Strategy and Bank Portfolio**

***Lending***

4. IDA lends to Senegal since 1966. The main objective of the Bank's assistance strategy for Senegal has been to reduce the incidence of poverty and improve employment. In the current CAS, the Bank will work to (i) develop country ownership through policy dialogue, (ii) use public expenditure reviews with a focus on impacts at the levels of the consolidated central budget, (iii) monitor linkages between implementation and aggregate results, and (iv) emphasize investment in human capital through the lending and advisory services.
5. As of October 31, 2003, the World Bank had approved 125 credits for Senegal with a total amount of about US\$2.5 billion. Past projects had supported agricultural diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, the emphasis has shifted to better utilizing and maintaining existing facilities and to helping the government resolve some of the key issues hampering long-term development prospects. The current active portfolio has a commitment value of about US\$777 million equivalent, with an undisbursed amount of about US\$531 million. The portfolio is composed of 18 credits in

various sectors (rural development, human resources: population/health/ nutrition/education, HIV/AIDS, infrastructure/urban development, energy/water, industry, and private sector development).

*Sector issues*

6. The implementation of the Health SIP has experienced delays as a result of (i) difficulties in making the information management system operational, and (ii) weak financial programming and monitoring capacities at the decentralized level. The government is discussing corrective measures to address these issues.

7. In 1999, the government adopted a ten-year program (PDEF) with the ultimate objective of reaching universal primary education by the year 2008 (up from 60 percent of gross primary enrollment in 1999). A Quality Education For All Project (QEFA- Education SIP) covers the first three years of the ten-year program. Under the QEFA Project, the government committed itself to hiring 2000 elementary school teachers annually for at least the next three years. The government has also partially shifted to hiring teachers on a contract basis at more affordable salaries, and also hires “volunteer” teachers who are paid a nominal sum. Much of the responsibility for school construction and school management, including teacher hiring, would be deferred to the regions and to the local authorities, an evolving process which is already underway.

8. Up until 1996, the urban water sector was facing two major issues: (i) a shortage of water production and distribution capacity in the Dakar area requiring substantial immediate investments, (ii) low managerial efficiency with no financial viability of the sector. To deal with these issues, the government adopted two Water Sector Projects in 1996 and 2001 supported by seven donors, including the World Bank as lead agency. The projects include a large physical investment program and institutional reforms (PSP), which have increased access to potable water in the Dakar area and improved overall management of the sector.

9. In the transport sector, capacity constraints are being addressed with a program of new investments, especially in rehabilitating rail links between Senegal and Mali, as well as institutional reforms. The Transport SIP was launched in 1999 with support from several donors, including the World Bank. The envisaged structural reforms contain plans for privatizing international rail services, container terminal port services, and airport management. Pilot operations have begun to decentralize the management of rural transport infrastructure.

10. Due to global difficulties in the energy sector, the two “privatization” efforts conducted over the last four years to bring private sector expertise and private financing into SENELEC were not successful. The Bank is now assisting the government in a third effort taking into account the lessons learned and the overall international context where private sector interest in investing in Africa is reduced. Petroleum prices were frozen between February 2000 and June 2001, with a one-time increase of 15 percent in September 2000.

Since then they have been adjusted in accordance with a law from 1998 on a monthly basis, but prices remain regulated by ministerial arrêté based on import parity calculations and are not liberalized in the true sense of the word.

11. As of June 30, 2003, credits from the International Finance Corporation's (IFC) portfolio totaled US\$50 million and included two large investments (the GTI-Dakar power plant – the first Independent Power Producer of the country—and Ciments du Sahel—the country's second cement producer. Direct SME investments were made to finance a 130-room hotel, a private school, a microfinance institution and expand a fishing fleet. Prior equity investments in the financial sector in housing and leasing are mature and IFC is seeking exit. IFC has been active in advisory work with FIAS assessments of investment red tape and the taxation system. IFC is also an active participant in the President's Investors' Advisory Council, a forum for high-level dialogue between the government and private sector (domestic and foreign).

#### *Current and medium-term initiatives*

12. A new Country Assistance Strategy (FY03-05) was approved in April 2003. The CAS supports the government's PRSP, based on the pillars of wealth creation and capacity building/development of social services. As regards infrastructure, the CAS proposes new lending services to support electricity sector development, expand small-scale urban infrastructure, and develop key infrastructure through public/private partnership. With regard to private sector development, the CAS supports new lending for a private investment promotion operation, a private sector adjustment credit, and possibly an operation to strengthen the rural financial system (high lending case). New lending services for rural development would include the preparation of the second phase of the Agricultural Services and Producers Organizations project, a program to support appropriate rural development activities in the Casamance Region, and possibly an operation to develop a pilot land titling program (high lending case). As regards social services, new lending services include the preparation of the second phase of the Quality Education for All project, and a follow-up Health operation. A Coastal and Marine Biodiversity project (GEF/IDA) is also proposed. A PRSC will be prepared, and possible areas of focus include public finance management, health/education (policy reforms and transversal issues such as human resource management and fiscal decentralization).

#### **Bank-Fund Collaboration in Specific Areas**

13. The IMF and the World Bank staff maintain a close working relationship, especially with respect to (i) the implementation of the Poverty Reduction Strategy, (ii) the implementation of measures to attain the HIPC completion point, (iii) reforms in public finance management, and (iv) structural measures in specific sectors, such as electricity and groundnuts, which have systematic impact on the public finances and on macroeconomic stability and where the Bank has had no lending program in 2003.

14. The conditionality for the groundnut and electricity sectors in the new PRGF-supported program has been developed in close collaboration with World Bank staff, and the Bank takes the lead role in working out the technical details of the envisaged reforms. The Fund and the Bank also coordinate their activities and conditionalities in the area of public expenditure reform, an area in which both institutions have an interest.

Senegal: Statement of Loans/Credits/Grants  
(As of October 31, 2003)

Loan/Credit / Grant	Description	Principal	Available	Disbursed	Approval Date	Closing Date
(Amount in U.S. dollars)						
37620	Private Investment promotion	46,000,000.00	48,603,724.00	0	20-May-03	31-Dec-08
36190	Nutrition Enhancement Prog.	14,700,000.00	12,405,011.00	4,374,999.00	14-Mar-02	15-Jan-06
36010	HIV/AIDS Prevention and Control	30,000,000.00	31,706,422.00	2,163,253.00	7-Feb-02	30-Sep-07
		125,000,000.0	132,983,241.0			
34700	Long-Term Water Sector Project	0	0	7,257,995.00	6-Mar-01	31-Dec-07
34460	Social Development Fund Prog.	30,000,000.00	25,299,930.00	8,010,617.00	20-Dec-00	31-Dec-04
33980	Distance Learning Center	2,100,000.00	302,657.00	1,803,306.00	29-Jun-00	30-Apr-04
33540	Urban Mobility Improvement Project	70,000,000.00	72,443,652.00	2,312,335.00	25-May-00	31-Dec-05
33330	Quality Education for All Prog.	50,000,000.00	23,599,600.00	27,125,863.00	11-Apr-00	31-Dec-03
33150	National Rural Infrastructure	28,500,000.00	21,331,098.00	7,643,598.00	27-Jan-00	30-Jun-05
32890	Public Services Info-Systems Modeling	10,150,000.00	3,172,595.00	7,230,575.00	2-Nov-99	31-Dec-03
32190	Agriculture Services & Prod. Org.	27,400,000.00	13,611,394.00	14,417,819.00	20-May-99	31-Dec-04
31830	Transport II	90,000,000.00	76,493,923.00	14,924,875.00	30-Mar-99	30-Jun-05
30170	Agriculture Export Promotion	8,000,000.00	2,821,465.00	5,282,830.00	9-Dec-97	31-Dec-03
30060	Urban Development and Decentralization	75,000,000.00	22,855,038.00	52,405,485.00	20-Nov-97	31-Dec-04
29850	Integrated Health Sector Development	50,000,000.00	21,792,641.00	27,506,915.00	4-Sep-97	31-Dec-04
29630	Sustainability Part. Energy Management	5,200,000.00	1,201,894.00	3,953,834.00	12-Jun-97	31-Dec-04
29510	Endemic Diseases	14,900,000.00	7,919,935.00	7,106,768.00	8-May-97	30-Jun-04
		100,000,000.0				
27580	Water Sector	0	12,454,809.00	73,520,235.00	29-Jun-95	30-Jun-04
		776,950,000.0	530,999,029.0	267,041,302.0		
	Total	0	0	0		

Statement of IFC's Held and Disbursed Portfolio  
As of 07/31/2003; in millions of U.S. dollars)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1996/97/98	AEF SERT	0	0	0	0	0	0	0	0
1980	BHS	0	0.46	0	0	0	0.46	0	0
		16.0				16.0			
1999	Ciments du Sahel	7	2.26	2.81	0	7	2.26	2.81	0
1997/98	GTI Dakar	0	0	0	0	0	0	0	0
1998	SEF Fanaicha	0	0	0	0	0	0	0	0
2001	SEF Royal Saly	1.28	0	0	0	0.92	0	0	0
		17.3				16.9			
	Total portfolio:	5	2.72	2.81	0	9	2.72	2.81	0

AEF SERT = Africa Enterprise Fund - Société d'exploitation des ressources thonnères (fisheries).

BHS = Banque Habitat du Sénégal (financial).

CDS = Ciment du Sahel (cement factory).

GTI-DAKAR = Power project.

SEF Famocacja = Small Enterprise Fund - (private school).

SEF Royal Saly = Small Enterprise Fund (small tourist hotel).

## **Senegal: Statistical Issues**

(As of December 11, 2003)

1. Overall, Senegal's economic database is comprehensive, but there are weaknesses in the data on national accounts, production, international trade, and social indicators. The authorities are strongly committed to improving the quality and availability of their databases, and for this they rely on technical assistance from the Fund and other international organizations. In order to strengthen the quality of Senegal's statistical database, a National Statistical Institute is being set up, as recommended by an STA mission (April 2001).
2. Senegal participates in the General Data Dissemination System (GDDS), and its metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 10, 2001.
3. A data Report on Observance of Standards and Codes (ROSC) mission, which took place in September 2001, carried out a review of Senegal's data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, consumer price, monetary, balance of payments, government finance, and income poverty statistics. The main findings of the mission were the following: (i) Senegal generally follows the recommendations of the GDDS for the coverage, periodicity, and timeliness of all data categories; (ii) improvements need to be made in data coverage (especially national accounts by institutional sectors), periodicity (especially quarterly government financial statistics), and timeliness (especially balance of payments, monetary, and poverty); and (iii) plans for improvement in these areas should address resource constraints, reinforce the legal framework for data collection and coordination, and clarify the responsibilities for dissemination of government operations, public debt, and monetary data. The mission also found that, while statistics were generally established on the basis of acceptable sources, those relating to government finance were weakened as a result of the absence of an integrated accounting source and the practice of not investigating revisions.
4. On October 17, 2002, the authorities conveyed to the Fund their observations on the draft data ROSC and their consent to the publication of the final version on the Fund website. The ROSC was published on December 2, 2002. An FAD mission for a ROSC on fiscal transparency is expected to visit Senegal in early 2004.
5. In discussions with the government in the context of the 2002 Article IV consultations and the monitoring of the PRGF-supported program, the staff has urged the authorities to address the lack of quarterly (or half-yearly) indicators for overall economic activity. The national accounts and balance of payments data are prepared only on an annual basis. The authorities publish a quarterly industrial index and a semi-annual services sector index.

Specific issues in various areas of statistics are discussed below.

### **Real sector**

6. The national accounts compilation generally follows the *System of National Accounts, 1993*. While the staff demonstrates professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly in the informal sector. Owing to financial constraints, business and households surveys are not conducted regularly, which impedes the production of national accounts estimates (e.g., input-output tables and institutional sector accounts are not compiled annually). However, efforts are being made to improve the data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. A project to implement the *System of National Account 1993*, a shift in the base year from 1987 to 1999, and improvement of estimates of informal activities, was completed in early 2003 and revised data have already been published in the IFS.

7. Senegal has embarked on a process of regional harmonization of statistical methodologies within the framework of the West African Economic and Monetary Union (WAEMU). A new harmonized consumer price index was introduced in January 1998. However, the coverage is limited to Dakar, the weights are based on a household budget survey conducted during only three months in 1996, and the regular provision of financial resources required for the price collection is not assured.

### **Public finances**

8. Government finance statistics (GFS) data are compiled by the Ministry of Finance from the customs, tax, and treasury directorate sources. The authorities have not reported data to STA for the 2003 GFS Yearbook, interrupting the delivery of summarized information that resumed in 2001. They do not report subannual data for publication in IFS, whilst this would be reasonably costless owing to the existence of reasonably detailed quarterly GFS tables (TOFE). In part to improve its GFS, Senegal started implementing recommendations made by a May 2000 FAD mission to correct a reported deterioration in the treasury accounts, as well as to integrate special accounts. Such groundwork could be instrumental for enhancing the compilation of a regional harmonized summary table of fiscal operations (TOFE).

9. An AFR team is scheduled to work with the authorities in February 2004 on improving fiscal reporting in the context of the PRGF-supported program. The focus would be on (i) public accounts that are outside of the direct purview of the treasury; (ii) strengthening aid reporting practices; and (iii) ensuring consistency of treasury and banking system information concerning transactions in government accounts.



### **Monetary data**

10. Monetary data for Senegal are prepared by the national agency of the Central Bank of West African States (BCEAO). There has been an improvement in the timeliness of data provided on interest rates, monetary institutions, and deposit money banks. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to two-three months. Most of the monetary statistical issues have been resolved.

11. A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed outstanding methodological issues that concern all the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual* and discussed the modalities for introducing an *International Finance Statistics (IFS)* area-wide page for the WAEMU zone, which was subsequently introduced in January 2003 IFS.

12. The BCEAO organized a seminar on monetary and financial statistics for BCEAO staff from headquarters and national agencies in Dakar, April 22-25, 2003 (STA staff participated in the seminar). Participants agreed to set up a working group consisting of representatives from the national agencies and various departments of the BCEAO's headquarters, which will follow-up on the implementation of the seminar's recommendations to foster implementation of the *MFSM*.

### **Balance of payments data**

13. Balance of payments data for Senegal are compiled by the national agency of the BCEAO. A long-term adviser from STA was posted at BCEAO headquarters to provide technical assistance to all BCEAO member countries (the posting ended in July 1999). With his support, several steps were taken in recent years to tackle balance of payments deficiencies. These included the following: (i) a methodology to integrate the new norms defined by the fifth edition of the *Balance of Payments Manual*; (ii) modified and simplified surveys for companies and banks; (iii) improvement in the computerization of procedures and (iv) significant strengthening of staff training. The definitive balance of payments data are provided with a delay of less than one year. Despite these improvements, further efforts will be necessary in order to enhance the quality and the coverage of data.

## Senegal: Core Statistical Indicators

(As of December 11, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	Current	08/03	08/03	08/03	08/03	11/03	8/03	2002	2001	12/02	2002	06/02
Date received	Current	11/14/03	11/14/03	11/14/03	11/14/03	12/3/03	10/03	7/03	01/03	01/03	7/02	11/02
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Quarterly
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Annually	Monthly	Variable	Variable
Source of update	EDSS <u>1</u> /TRE	BCEAO <u>2</u> /	BCEAO <u>2</u> /	BCEAO <u>2</u> /	BCEAO <u>2</u> /	BCEAO <u>2</u> /	Ministry of Finance	BCEAO <u>2</u> /	BCEAO <u>2</u> /	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	<u>3</u> /	<u>3</u> /	<u>3</u> /	<u>3</u> /	No	No	<u>3</u> /	<u>3</u> /	<u>3</u> /	<u>3</u> /	<u>3</u> /
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Quarterly	Annually	Annually

1/ Economic Information System, EDF, IMF.

2/ Central Bank of West African States, BCEAO.

3/ Preliminary data for staff use only; actual data unrestricted.



Press Release No. 04/26  
FOR IMMEDIATE RELEASE  
February 13, 2004

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Completes First Review Under Senegal's PRGF Arrangement and Approves US\$ 5.2 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today discussed Senegal's performance and completed the first review under a three-year SDR 24.27 million arrangement under the Poverty Reduction and Growth Facility (PRGF). As a result, Senegal will be able to draw up to SDR 3.47 million (about US\$5.2 million) under the arrangement immediately, bringing the total amount drawn under the arrangement to SDR 6.94 million (about US\$10.5 million).

The Executive Board waived the nonobservance of a quantitative performance criterion on contracting and guaranteeing of new nonconcessional external debt and two structural performance criteria initially established under the PRGF-supported program (see [Press Release No. 03/62](#)). The Board also approved additional interim assistance under the enhanced HIPC Initiative in the amount of SDR 1.06 million (about US\$1.6 million) for February–April 2004. Senegal is expected to reach the HIPC completion point by end-March 2004.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

In commenting on the Executive Board's discussion, Agustín Carstens, Deputy Managing Director and Acting Chairman, made the following statement:

“The Senegalese authorities continued to manage the economy well during the first half of 2003. The economy regained its growth trajectory after a large exogenous shock in 2002, inflation was low, and fiscal performance was on track. There were, however, some delays in the enactment of structural reforms and some weaknesses in external debt management. To address these slippages, in the second half of 2003, the authorities took strong measures to tighten external debt management and meet their commitment to increase private participation in the groundnut and electricity sectors.

“The authorities intend to vigorously implement their ambitious program of economic and financial policies geared toward growth and poverty reduction. They are committed to pursuing prudent macroeconomic policies and implementing the structural reform agenda. The 2004 budget is consistent with the authorities’ dual goals of higher spending on the priorities defined in their Poverty Reduction Strategy Paper and maintaining fiscal discipline.

“Structural reforms are crucial to achieve high economic growth and reduce poverty. In particular, the agenda to improve tax and customs administration and increase transparency in the expenditure process should be strictly adhered to; the privatization of the groundnut company, SONACOS, should be completed; and reforms in the electricity sector should be vigorously pursued, with a view to further harnessing private investment for the needed expansion of energy generation and forestalling the potential imposition of a burden on the government budget.

“Continued implementation of the reform agenda should pave the way for reaching the completion point under the enhanced Heavily Indebted Poor Countries Initiative,” Mr. Carstens stated.

**Statement by Damian Ondo Mañe, Executive Director for Senegal**  
**February 13, 2004**

I would like to thank the staff for a well-balanced and forward-looking report on the first review under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). To complement the report of the staff, my Senegalese authorities have prepared a comprehensive Memorandum of Economic and Financial Policies (MEFP) that reviews, economic, structural, and financial developments during 2003, and describes the outlook for 2004 and beyond.

The Memorandum acknowledges some weaknesses in policy outcome due mainly to exogenous factors, and to some extent, to delays in building consensus in a democratic setting, and also to technical capacity constraints. The report has emphasized in several areas that Senegal has maintained the macroeconomic framework agreed under the program and has achieved milestones in fiscal performance, especially in expenditure management as stated on page 13 of that report. The future bodes well for Senegal as the authorities are committed to strong policy performance, and have initiated reforms in the areas of the civil service, taxes, privatization, and have strengthened the business environment through their newly adopted investment code.

**Recent economic developments:**

With regard to **the real sector**, it is noted that economic activity in the first half of 2003 was weaker than envisaged under the program. Due to insufficient rainfall during 2002, agricultural output fell by 30 percent whereas a decline in the order of 20 percent (which was also substantial) had been forecast: this led to sharp reductions in groundnut output, major shortages in groundnut seeds, and to severe but isolated shortages in food supply. These developments resulted in large falls in income in the rural sector, in the agriculture-based industries and in an overall weak domestic demand. The authorities' policy response was to launch an emergency food import program, to provide groundnut seeds for the 2003 season to poor farmers with depleted stocks, and to carry out major pro-poor outlays through a supplementary budget adopted in August 2003.

The non-agricultural sectors of the economy weakened somewhat as world market prices for a number of export commodities fell and the euro, to which the CFA franc is pegged, appreciated vis-à-vis the US dollar. This exacerbated the already declining income and led to reduced private financial savings.

In the second half of the year, however, weather conditions improved, economic activity rebounded although, for the year as a whole, the non-agricultural sector's performance may have remained somewhat below expectations. Because of this turnabout, GDP is likely to have risen by 6.3 percent for the whole year, only 0.3 percent lower than initial projections. Inflation, measured by the consumer price index, was only 0.1 percent, helped by a cautious monetary policy, lower import costs due to the appreciation of the CFA franc, and sufficient supply of food which generally has a great weight in the average consumers' basket. The

current account deficit widened temporarily, reflecting the impact of the emergency imports and weaker export earnings. It is important to recognize, however, that the quick rebound of the economy was due to its diversification and resilience to external shocks, and this is to be attributed to staying the course with reforms policies over a number of years and the Senegalese authorities' skillful in economic management.

### **Performance under the PRGF:**

With respect to **fiscal policy**, the authorities chose not to offset the cost of their emergency program in favor of the rural sector (0.4 percent of GDP) with spending cuts in non-priority areas, but accelerated spending resources accumulated under the HIPC initiative as they sought to effect a small fiscal stimulus in the context of weaker-than-expected economic activity. This policy stance resulted in an increase in discretionary outlays by some 0.2 percent of GDP relative to the original program target and contributed to the narrowing of the basic surplus by an estimated 0.3 percent of GDP for 2003. Despite this stimulus, overall fiscal stance was broadly in line with program objectives: tax policy was strengthened and its administration improved; spending reporting and its execution procedures were also reinforced.

As for **monetary and financial sector issues**, overall policy was carried out at the regional level and remained prudent. In line with developments in financial markets abroad, the BCEAO (the common central bank) lowered its monetary policy rates by a cumulative total of 150 basis points and this provided an additional lift to the economy.

Over the last several years, the rise in credit to the economy has generally been in line with that of nominal GDP, and net credit to the government has been on a decline while velocity has been stable around 3.6 percent.

The financial sector remains sound and prudential ratios are adhered to thanks to the oversight of the regional banking commission. In the micro-finance area, the authorities are drafting a policy document and have sought technical assistance from the Fund's regional technical assistance center (West Afritac) scheduled to take place in 2004.

The authorities were able to collect CFAF 23 billion (about 0.6 percent of GDP) through a composite 6-12 month treasury bond issue that was vastly oversubscribed, at a rate of 3.3 percent, the lowest rate for such an issue in the region. The authorities' success in raising such an amount attests to the confidence that the market has in their macroeconomic policy.

As Directors are aware, the discussion of the first review under the program has been delayed in part due to the need for the authorities to forge the necessary consensus for ownership of the privatization program. In that connection, it was important for them to clarify concepts and definitions, to reach consensus within the administration, and to narrow differences of views with the Bank and Fund staff. In addition, a major factor for the delays, also in other instances, was technical capacity constraint.

Many of the **structural measures** which needed to be carried out under the program were enacted with some delays for the reasons just mentioned: (1): the issue of tenders for the privatization of SONACOS, a performance criterion for July 31, 2003 was carried out on January 13, 2004; (2): the issue of the tender for the concession for an independent power producer (IPP), (another performance criterion) scheduled for June 30, 2003 was carried out on November 5, 2003; (3): the publishing of a semiannual audit report on SENELEC's preliminary accounts as of end-June 2003, a benchmark for September 30, 2003 was done on January 8, 2004; (4): the submission of year-end treasury accounts (comptes de gestion) for fiscal years 1998, 1999, 2000 and 2001 to the Audit Office (Cour des Comptes), a benchmark for August 31, 2003 was delayed to 2004 because of capacity constraints and time needed for the Treasury and the Audit Office to define modalities and procedures of presenting the accounts and the nature of the supporting documents.

Senegal has now secured foreign assistance in favor of the Treasury and the Audit Office in order to strengthen their capacity so that this benchmark could be carried out by December 2004. A ministerial decree is being prepared to clarify the procedures and modalities and the nature of the supporting documents that should be provided along with the budget accounts. My authorities stress that this exercise in budget account verification and audit is a major milestone for the transparency of uses of public funds.

While the **quantitative performance criteria** for June 2003 have been met, the authorities are requesting a waiver for the nonobservance of the continuing criterion on the zero ceiling on the contracting or the guaranteeing of non-concessional external debt that was breached in July 2003 because of weakness in debt administration. This criterion was breached because SENELEC borrowed from the West African Development Bank (BOAD) to fund indispensable maintenance of transmission lines. SENELEC management was not aware of the inconsistency of this loan with the authorities' debt strategy.

On the basis of the above, my authorities are requesting waivers for the missed continuing quantitative performance criterion and those related to the IPP and SONACOS.

#### **Prospects for 2004 and beyond:**

The prospects for 2004 and beyond appear very favorable as real GDP is forecast to grow by 6 percent owing to continued strong recovery in agriculture, a solid pace in construction and public works activity, and good performance in the chemical production. Inflation is projected at 1.2 percent whereas a rate of 1.8 percent had been targeted initially.

In **the fiscal area**, the authorities are committed to pursuing their efforts at rationalizing the tax system, at widening the tax base so as to strengthen revenue performance. Expenditure policy would continue to be prudent, with the wage bill rising slightly reflecting the moderate impact of the recruitment program. As indicated on page 46 of the Memorandum, this is consistent with the financial targets under the program. The authorities plan to accelerate public works and increase pro-poor outlays in line with their PRSP objectives. This will result in a small deficit in their basic primary balance, but the overall deficit will be more than covered by external financing originating in part from the disbursements of the first

tranche of the World Bank Private Sector Adjustment Credit (PSAC) and the African Development Bank program which were deferred from 2003 to 2004.

The **external sector** outlook also appears favorable owing to strong export performance and the disappearance of any need for emergency imports. Hence, the external current account is projected to narrow to 5.5 percent of GDP in 2004. The overall balance is expected to slightly strengthen, allowing the central bank to increase gross reserves to the equivalent of 3.5 months of import cover. This way, Senegal will be contributing to a net addition to the common foreign exchange reserves held by the BCEAO.

My authorities have reiterated their strong commitment to achieving **debt sustainability** and will continue to adhere to the principle of a sound borrowing strategy and solid debt management. During the forthcoming mission, the staff and the authorities will verify that the program is on track to ensure the operationality of the triggers for the attainment of the completion point triggers in March 2004. Furthermore, my authorities would very much appreciate it if the donor community would help Senegal attain of the Millennium Development Goals.

In the interim, my authorities have addressed weaknesses in borrowing and debt management, especially with regard to borrowing by public enterprises. In this connection, the Prime Minister's Office has enacted an executive order that requires public agencies and enterprises to seek the prior authorization of the Minister of Finance before contracting foreign loans. Additionally, my authorities are examining whether their debt strategy should include some well-delineated exceptions for nonconcessional borrowing in the monetary area in cases where no alternative financing is available for the productive sector. My authorities are seeking guidance from the Fund and the Bank on this matter.

Based on the corrective measures that have been implemented, the strength of their policies, and continued commitment to reform, my Senegalese authorities seek waivers for the missed performance criteria under this first review, and the extension of additional interim assistance under the enhanced HIPC until April 30, 2004.

### **The way Forward:**

Looking ahead, we expect the second review paper under the PRGF to be discussed by the Executive Board in May 2004. In this regard, I would appreciate it if the Executive Board could give consideration to the following points:

In paragraph 30 of the staff report, it has been mentioned that, because of the late issuance of the report to the Board, it has not been possible to make adjustments to two performance criteria as well as in some indicative targets of the initial program (EBS/03/49) to reflect the small fiscal stimulus implemented during the second half of 2003. Therefore, waivers might be required on the occasion of the second review under the arrangement. Staff has already indicated in the report before us its support for the respective waivers should they be needed, and my authorities hope that the Board will do the same.



As expressed in the letter of intent and MEFP, my authorities intend to vigorously implement their ambitious program of economic and financial policies geared toward growth and poverty reduction, in close cooperation with their development partners. Finally, my Senegalese authorities count on the support of the international community to address challenges to reduce poverty and attain the Millennium Development Goals, and appreciate the support of Management, Staff and the Executive Board.