November 2007
IMF Country Report No. 07/358

Senegal: Request for a Three-Year Policy Support Instrument—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Senegal

In the context of the request for a three-year Policy Support Instrument, the following documents have been released and are included in this package:

- The staff report for the Request for a Three-Year Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on July 26, 2007, with officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 10, 2007. 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 staff statement of November 2, 2007 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its November 2, 2007 discussion of the staff report that completed the request.

- A statement by the Executive Director for Senegal.

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

Letter of Intent sent to the IMF by the authorities of Senegal*
Memorandum of Economic and Financial Policies by the authorities of Senegal*
Technical Memorandum of Understanding*
*Also included in the Staff Report

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

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INTERNATIONAL MONETARY FUND

SENEGAL

Request for a Three-Year Policy Support Instrument

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

Approved by Sharmini Coorey and Adnan Mazarei

October 10, 2007

- **PSI request.** The proposed three-year program focuses on: (i) implementing a prudent fiscal policy; (ii) improving fiscal governance and transparency; (iii) encouraging private sector activity; and (iv) raising the financial sector's contribution to the economy. The policies underlying the request are summarized in the attached letter of intent and memorandum of economic and financial policies (MEFP).
- **Program discussions.** July 12–26, 2007. Staff met with Minister of Economy and Finance Diop, Minister of Budget Sar, BCEAO National Director Sene, heads of key government agencies, other officials, representatives of the private sector, and commercial banks. The team included Mr. Mueller (head), Mr. Roudet, Mr. Kpodar (all AFR), Ms. Adenauer (FAD), and Ms. Mitra (PDR), and was assisted by Mr. Segura-Ubiergo, resident representative, and his local staff. Mr. Sembene (Senior Advisor, OED) participated in the discussions. The mission coordinated with Senegal's development partners, especially the World Bank, and met with overlapping missions from the Bank on energy sector reform, the African Development Bank, and the Millennium Challenge Corporation (MCC).
- **Fund relations.** The last Poverty Reduction and Growth Facility (PRGF) arrangement expired in April 2006. The Executive Board discussed the Ex-Post Assessment (EPA) in March 2006 and concluded the 2006 Article IV consultation in January 2007. Outstanding credit amounted to SDR 17.33 million (10.7 percent of quota) at end-August 2007. Under the MDRI, Senegal received debt relief from the Fund, the Bank, and the African Development Fund, totaling about 25 percent of 2005 GDP.

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EXECUTIVE SUMMARY

After a decade of macroeconomic stability, Senegal's economy weakened in the past two years, partly reflecting policy slippages. Macroeconomic performance following the 1994 devaluation generally topped that of other countries in the region. However, growth slowed in 2006 as oil prices increased, agricultural output declined, and public enterprises in the energy and chemical sectors experienced financial difficulties. The fiscal deficit doubled to 6 percent of GDP in 2006, triggered in large part by a surge in energy subsidies. Allocations for priority spending suffered, and cash-flow problems resulted in payment delays to the private sector.

The authorities intend to tackle key policy challenges under a three-year PSI. In line with EPA findings, quantitative conditionality is curtailed relative to the last PRGF program, and structural conditionality emphasizes fiscal reforms and governance issues. Other program measures aim at increasing Senegal's growth potential and the financial sector's role in the economy.

Under the program, the fiscal deficit will be reduced to a sustainable 4 percent of GDP over the medium term. In the context of significant underlying fiscal pressures, the program stresses the need to improve the composition of spending, manage expenditures and fiscal risks associated with new projects, and eliminate payment delays to the private sector. The fiscal program will generally rely on borrowing in the regional market and concessional external borrowing.

The main risks to the program, which, in staff's view, remain manageable, are slower-than-projected growth, slippages in reducing the fiscal deficit, and flagging commitment to the structural reform agenda. Economic activity could suffer if energy supply problems remain unaddressed, recovery of the chemical company stalls, or the private sector continues to face government payment delays. Slippages in restructuring public enterprises could raise fiscal risks and endanger banking system soundness. Weakening political resolve to implement structural reforms and address governance concerns could undermine policy credibility and reduce aid flows.

I. Background and Recent Economic Developments

1. **Discussions on a program under the PSI took place after President Wade was reelected in February and won a strong majority in parliament in June.** This facilitated reaching consensus on a policy package under a PSI. The proposed program's three-year time frame is broadly in line with the remaining implementation period of Senegal's second Poverty Reduction Strategy Paper, PRSP-II (covering 2006–10).[1]

2. **Although economic performance has recently deteriorated, Senegal is nevertheless a candidate for a PSI.** Over the last decade, the country has achieved a high degree of macroeconomic stability and robust growth, and debt indicators have declined due to debt relief (Figure 1). Its macroeconomic performance compares favorably with that of other WAEMU and Sub-Saharan African countries (Text Table 1). However, despite important structural reforms, the economy has remained vulnerable to exogenous shocks and dependent on donor support.

Text Table 1. Senegal, WAEMU, and Sub-Saharan Africa Macroeconomic Indicators 1994, 2007

	1994-2005 Avg.			2006 Act.			2007 Proj.		
	SEN	WAEMU	SSA	SEN	WAEMU	SSA	SEN	WAEMU	SSA
Real GDP Growth (percent)	4.5	4.0	3.8	2.1	3.9	4.8	5.1	4.7	5.9
Real per Capita growth	1.5	1.3	1.6	-0.3	1.5	2.8	3.0	1.9	4.4
Average inflation (percent)	4.6	5.7	20.9	2.1	2.3	13.2	5.4	2.4	13.2
Current account balance(percent of GDP)	-5.1	-5.5	-2.2	-10.1	-5.6	0.8	-9.6	-5.6	1.2
Foreign reserves (months of imports)	3.2	3.6	3.5	3.7	3.9	5.9	4.0	4.0	5.5
Overall fiscal balance including grants (percent of GDP)	-2.2	-2.4	-2.6	-5.8	-3.2	4.5	-4.7	-3.0	2.2
Government expenditure (percent of GDP)	21.7	20.4	24.9	27.7	22.8	25.0	27.7	22.3	27.6
Government revenue (percent of GDP)	18.3	15.5	21.3	20.0	17.2	26.4	20.6	17.7	27.6
Period-average real effective exchange rate (percentage change)	-0.4	-1.5	-0.7	-0.6	2.4	...	...	...	...

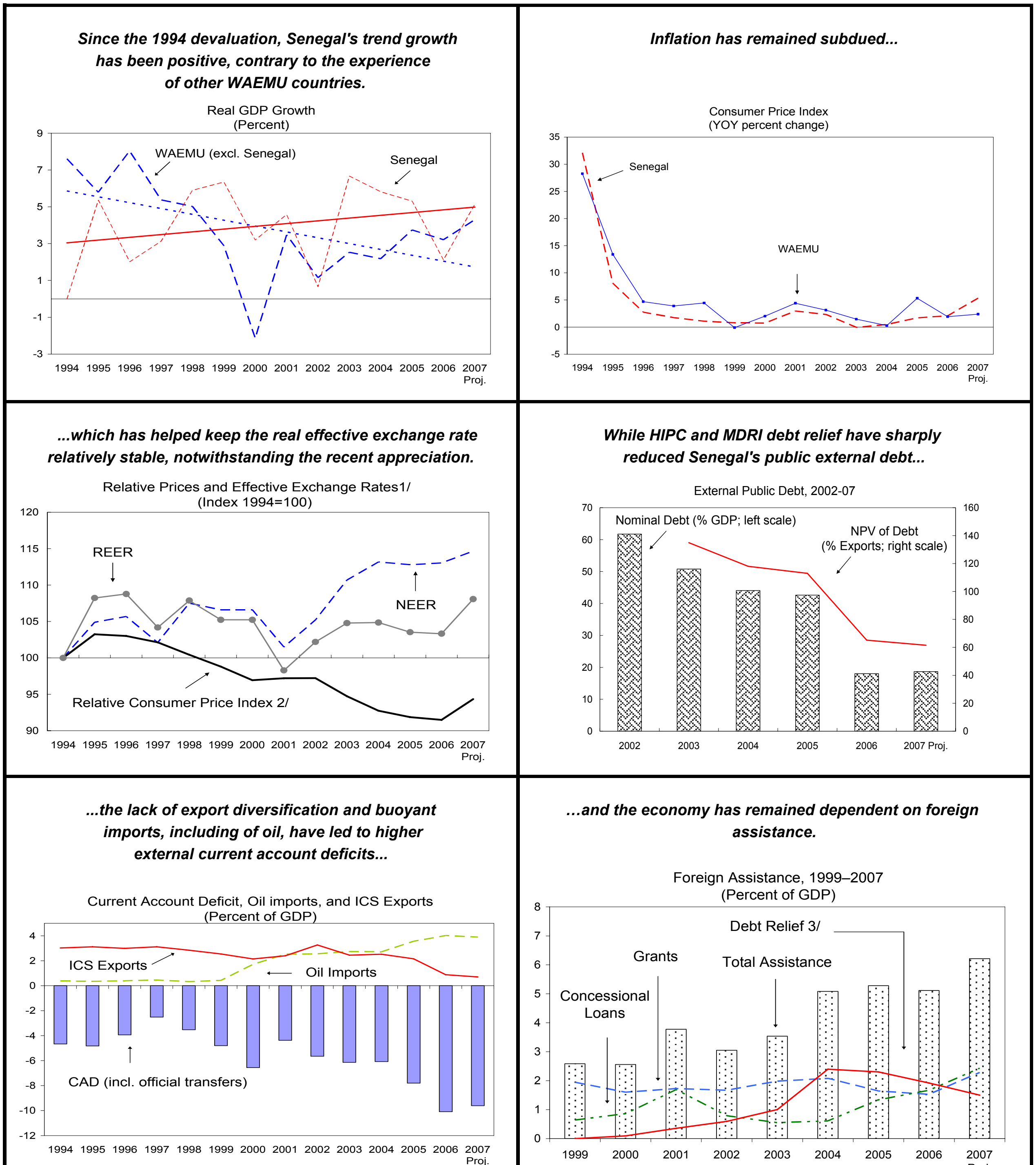
Source: WEO/ WETA database.

[1] Average for Sub-Saharan African countries.

3. **Economic problems have emerged over the past two years** (Figure 2). The rise of international oil prices and a decline in agricultural production contributed to a slowdown in growth to 2 percent and a widening of the current account deficit to 10 percent of GDP in 2006. End-of-period inflation rose to 7 percent by July 2007, reflecting delayed adjustments in administered energy prices and surging food prices. Disruptions in the operations of the chemical export company (ICS), the electricity company (SENELEC), and the oil refinery (SAR) because of financial difficulties (see below) exacerbated these developments and also heightened vulnerabilities in the banking sector. Overall, real per-capita GDP declined in 2006, for only the third time since the 1994 devaluation.

[1] See IMF Country Report No. 07/317.

Figure 1. Senegal: Main Economic Trends, 1994-2007



Sources: Senegalese authorities; and IMF staff estimates.

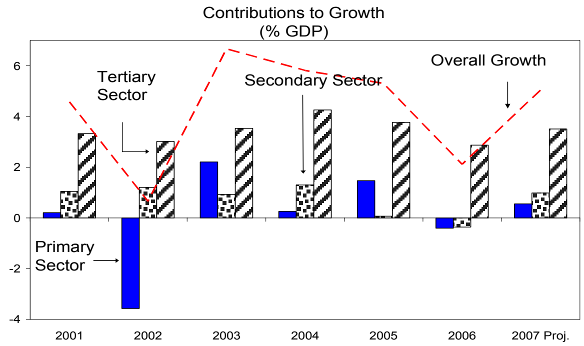
1/ 2007 NEER, REER and relative consumer price index are based on the January-June average.

2/ Consumer price index relative to an average for external partners.

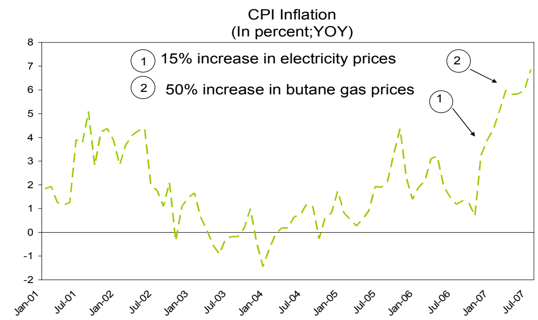
3/ Includes MDRI flow savings in 2006-07.

Figure 2. Senegal: Recent Macroeconomic Developments, 2001-07

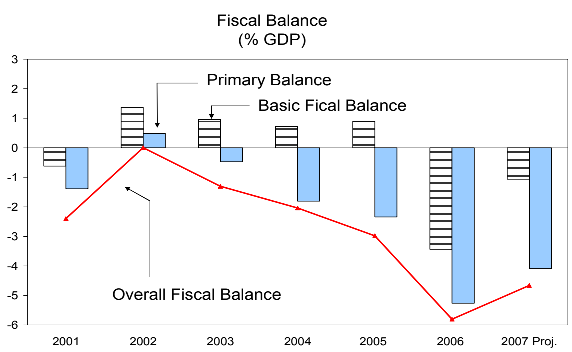
Senegal's economic growth slowed down in 2006…



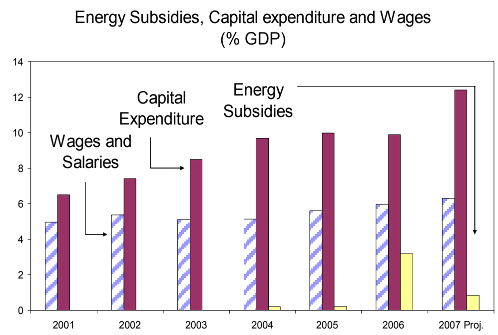
…while inflation has picked up owing to higher food prices and delayed adjustments in administered prices to higher global oil prices.



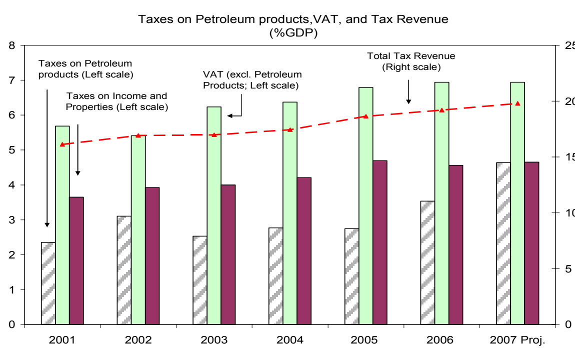
Fiscal discipline has deteriorated…



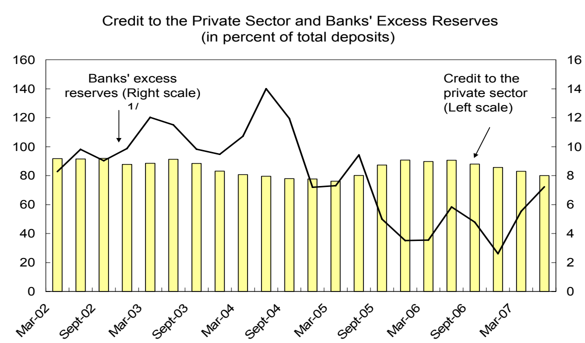
….reflecting mainly an increase in energy subsidies, capital expenditure, and the wage bill.



The deterioration in fiscal performance occurred in spite of improved tax collection performance.



Large government borrowing in the WAEMU zone led to a reduction in banks' excess reserves.



Sources: IMF staff estimates and UN Comtrade.

1/ Difference between banks' actual reserves and the required reserves. Required reserves are calculated by the BCEAO as a percentage of banks' deposits, short-term credit and gross foreign claims.

4. **Recent policy slippages have also contributed to Senegal's weaker economic performance.** Following small deficits during 2001–04, the fiscal deficit doubled in 2006 to 6 percent of GDP, as energy subsidies surged and capital spending and the wage bill increased. When deficit financing became problematic, allocations for priority spending suffered and payments to domestic suppliers slowed. Moreover, lags in rehabilitating loss-making public enterprises in the energy and chemical sectors have exacerbated fiscal risks, fiscal governance concerns have persisted, and the generous tax exemptions under consideration could undermine Senegal's traditionally strong revenue performance.

II. THE PROGRAM UNDER THE PSI

A. Program Objectives

5. **The authorities request that the Fund supports their economic program under the PSI.** After considering a low-access PRGF arrangement, they decided to reaffirm their preference for a PSI and expressed confidence they could meet the requirements of the PSI review schedule. To return the economy to a sustainable path and increase Senegal's growth potential, and thus help alleviate poverty and achieve the Millennium Development Goals (MDGs), the three-year program focuses on:

- returning to a prudent *fiscal policy* to support macroeconomic stability;
- improving *fiscal governance and transparency* to raise public sector effectiveness, enhance policy credibility, and sustain external assistance;
- encouraging *private sector activity* by improving the business environment and supporting reforms of fragile public enterprises; and
- raising the *financial sector*'s contribution to the economy while addressing sectoral vulnerabilities.

6. **In line with EPA recommendations, program conditionality has been streamlined, with some front-loading to demonstrate the authorities' commitment** (Box 1). There are six quantitative assessment criteria and indicators, whereas the last PRGF program included 16. Structural conditionality emphasizes governance concerns and fiscal reforms, built around a public financial management (PFM) action plan that lays out a roadmap for enhancing the effectiveness of the public sector. Financial sector conditionality is based on prior FSAP recommendations; the forthcoming WAEMU FSAP may provide additional analysis and recommendations that could be included during the program reviews. The detailed MEFP reflects the authorities' priorities that emerged during discussions with staff.

Box 1. Senegal's EPA: Main Conclusions and Recommendations

The 2006 EPA analyzed Senegal's three multi-year ESAF/PRGF programs since the 1994 devaluation. Its main findings were as follows:

- Macroeconomic objectives under the programs were generally realistic.
- The authorities pursued a prudent fiscal policy, but had difficulty meeting program targets after 2000. In an attempt to shore up fiscal objectives, the number of quantitative targets became excessive.
- Senegal's record in implementing structural conditionality was mixed, partially reflecting ownership problems. Structural conditionality hardened over time to correct for policy slippages. Programs included limited measures conducive to raising private sector activity and financial sector intermediation.

The EPA identified Senegal's key policy challenges over the medium term. While making the case for prudent macroeconomic policies and further fiscal reforms, it stressed the need for an ambitious structural reform agenda to raise Senegal's growth potential and boost the role of the private sector. The EPA suggested that the Fund should focus on its core areas of expertise.

Regarding a future program relationship, the EPA viewed either a low-access PRGF or a PSI as suitable. It noted, however, that the PSI's predefined review schedule might pose a challenge for Senegal given past delays in completing program reviews.

Finally, the EPA recommended that a limited number of quantitative targets and a critical set of reforms form the nucleus of future program conditionality. This would be crucial to avoid straining the authorities' capacity and help build ownership. In light of past policy slippages, and in line with the IEO's finding that successfully implemented programs with Senegal tended to be characterized by considerable front-loading, the EPA recommended considering strong upfront structural reform measures, including prior actions.

B. The Macroeconomic Framework

7. **The program aims at consolidating macroeconomic stability and robust growth.** Medium-term economic growth is expected to be driven by investment—mainly in several planned large infrastructure projects—and exports as ICS gradually resumes operations (Text Table 2 and Box 2).

Text Table 2. Senegal : Contributions to Growth, 1996–2012

	1996–2006	2007–12	Difference
	(In percent)		
Real GDP growth	4.2	5.5	1.4
Primary sector	0.2	0.5	0.3
Secondary sector	0.8	1.6	0.8
Tertiary sector	3.2	3.5	0.3
Consumption	3.2	3.3	0.1
Private	2.3	3.3	1.0
Public	1.0	0.0	-0.9
Gross fixed investment	2.5	3.6	1.1
Private 1/	1.6	2.4	0.8
Public	0.9	1.2	0.3
Net exports	-1.5	-1.4	0.2
Exports of goods and non-factor services	0.0	1.5	1.5
Imports of goods and non-factor services	-1.6	-2.9	-1.3
Labor force 2/	1.7	1.7	0.0
Physical capital 2/	1.9	3.0	1.1
Total factor productivity 2/	0.6	0.8	0.3

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

1/ Including change in inventories.

2/ The growth accounting exercise assumes a standard Cobb-Douglas production function with an elasticity of output to capital of 0.35--in line with estimates for West Africa (see Sacerdoti et al. WP/98/162).

Box 2. *Industries Chimiques du Sénégal* (ICS)

ICS is the largest company in Senegal, producing phosphoric acid. It accounted for 3 percent of GDP, 10 percent of exports, and 7 percent of bank credit at end-2005.

Faced with cumulative losses of 4 percent of GDP, ICS temporarily interrupted operations in 2006 and currently operates at one-third of 2005 capacity. The financial difficulties reflected cost overruns, managerial weaknesses, disputes with clients, adverse price developments in 2001-03, and exchange rate appreciation in 2004-05.

The government and foreign majority owner recently agreed on a tentative restructuring plan, which still needs approval from ICS's creditors. The planned recapitalization would dilute the government's stake (from 47 percent to 10 percent) but allow the government to rescind its guarantee of ICS's bank debt (1½ percent of GDP). However, creditors may expect a government contribution to finalize the deal.

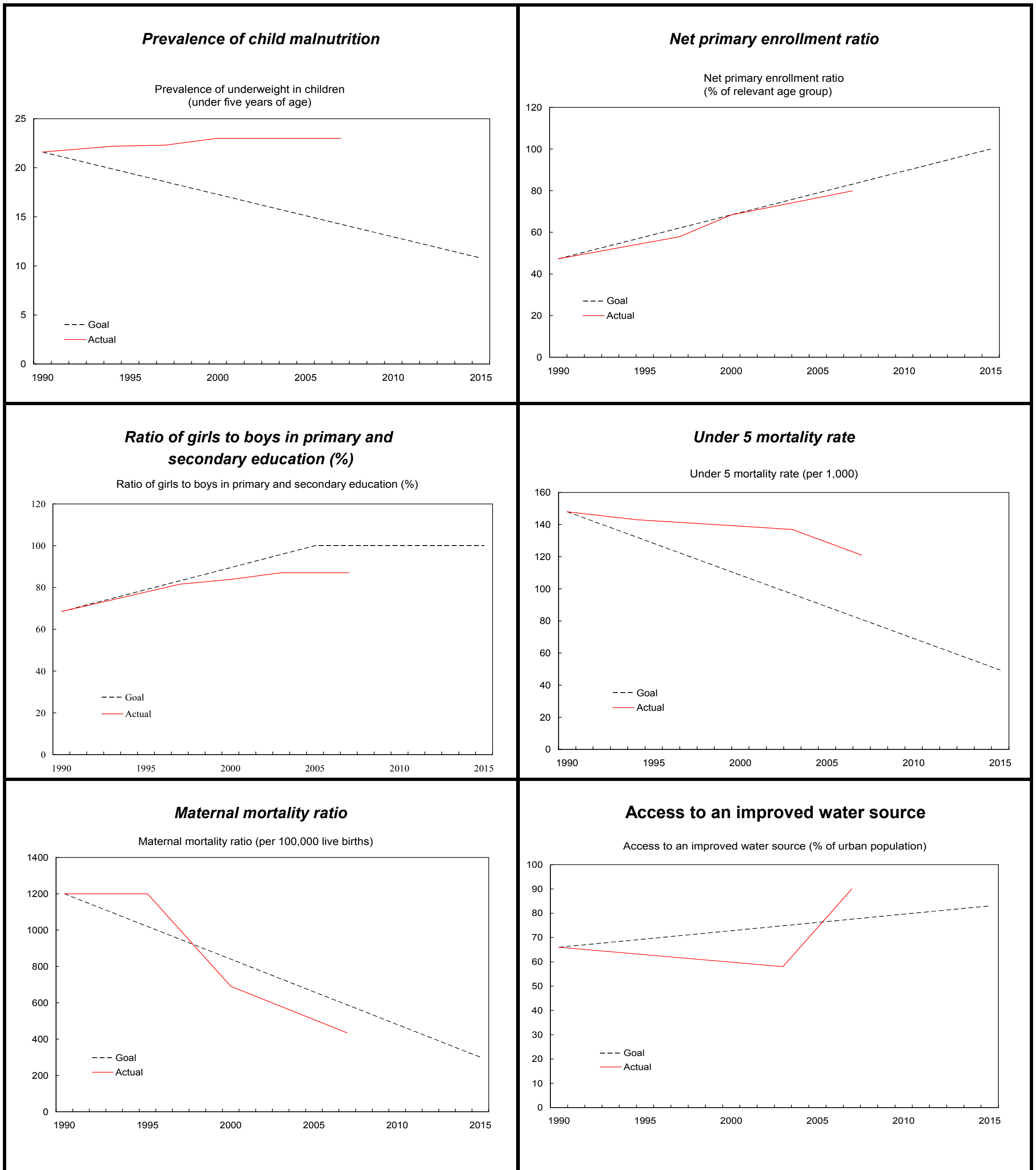
8. **The projected average growth rate of about 5½ percent in 2007–10 is in line with the PRSP-II's baseline scenario.** A higher growth rate of 7 percent—needed to attain the MDGs (Figure 3) and targeted under the authorities' Accelerated Growth Strategy (AGS; see Section II.E)—would need to be driven by broadening private sector activity, and thus hinges on structural reforms being implemented rapidly. By contrast, a weak-reform scenario illustrates the negative macroeconomic implications, including below-trend growth well short of what is desired by the authorities, should intended reforms fail to be implemented (Text Table 3). Average inflation is expected to return to its historical trend of about 2 percent a year, following a peak of 5½ percent in 2007.

Text Table 3. Senegal: Main Macroeconomic Indicators Under The Macroeconomic Framework And A Weak-Reform Scenario, 2006-10 1/
(in percent of GDP unless otherwise specified)

	2006	2007	2008	2009	2010
	Est.		Proj.		
Macroeconomic Framework					
Real GDP growth (percent)	2.1	5.1	5.7	5.8	5.8
Average inflation (percent)	2.1	5.4	2.9	2.0	1.8
Current account deficit (incl. transfers)	-10.1	-9.6	-9.8	-10.8	-11.3
Fiscal deficit (incl. grants)	-5.8	-4.7	-4.5	-4.1	-4.0
External public debt	18.0	18.7	19.7	20.1	20.7
Central government domestic debt	4.3	6.1	6.9	8.1	9.0
Weak-Reform Scenario					
Real GDP growth (percent)	2.1	3.9	4.5	4.8	5.1
Average inflation (percent)	2.1	5.4	2.9	2.0	1.8
Current account deficit (incl. transfers)	-10.1	-9.7	-10.0	-11.2	-11.7
Fiscal deficit (incl. grants)	-5.8	-4.9	-4.7	-4.7	-4.7
External public debt	18.0	18.8	19.9	20.3	21.0
Central government domestic debt	4.3	5.9	7.1	9.1	10.6

Sources: Staff estimates and projections
1/ The weak-reform scenario assumes that (i) the resumption in ICS's operations is delayed by a year; (ii) there is no fiscal adjustment over the medium term, consistent with the alternative DSA scenario in Figure 5; (iii) the government fails to rapidly clear domestic payment delays; and (iv) energy supply problems continue.

Figure 3.Senegal: Millennium Development Goals, 1990-2015



Sources: World Bank Staff, WBDI, http://www.developmentgoals.org; and United Nations, http://unstats.un.org.

9. **The projected large resource gap would mainly be financed by FDI inflows—related to several infrastructure projects—and foreign assistance, thereby keeping external debt in check.** The current account deficit (including grants) is projected to hover around 10 percent of GDP over the medium term, reflecting moderate export growth—as Senegal's competitiveness has changed little (Figure 4)—and high imports for infrastructure projects. Most of these projects—a large mining concession, the special economic zone (see below), the port of Dakar, and several tourism projects—are financed through FDI.

C. Returning to a Prudent Fiscal Policy

The program focuses on:

- ***Returning to a sustainable fiscal policy stance;***
- ***Improving the composition of spending;***
- ***Safeguarding revenue;***
- ***Eliminating domestic arrears and reducing other payment delays; and***
- ***Maintaining a prudent borrowing policy.***

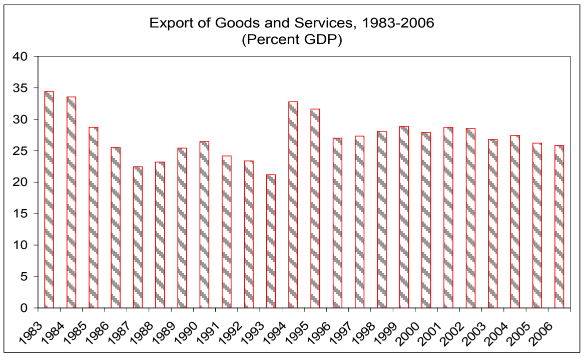
10. **A reduction of the *fiscal deficit* to 4 percent of GDP by 2010 is the cornerstone of the program** (Text Table 4). According to the staff's updated Debt Sustainability Analysis (Figures 5 and 6), this level will be sustainable.[2] The authorities recognized that the fiscal deterioration in 2006, including the surge in payment delays to suppliers, undermined macroeconomic stability and the private sector. They decided to limit the 2007 fiscal deficit to 4¾ percent of GDP, based largely on sharp cuts in subsidies to the energy sector and non-priority spending; the strong revenue performance to date, as well as one-time receipts (e.g., a mining concession fee), should also help. A supplementary budget recently submitted to Parliament regularized all unappropriated expenditures and incorporated all spending and grants related to the organization of the 2008 Islamic Conference in Dakar.

MEFP ¶11, 14 (refers to relevant MEFP paragraph)

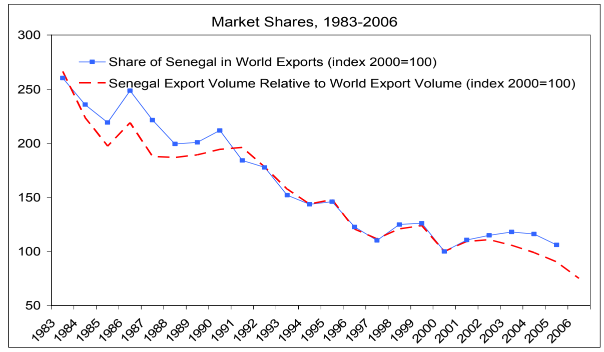
[2] Airport project-related loans and the tax backing them are not incorporated in the DSA. The project is expected to be roughly neutral on an NPV basis.

Figure 4. Senegal: Competitiveness

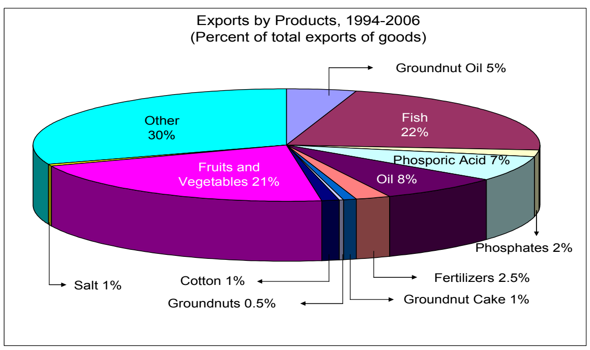
Senegal's lackluster export performance since the 1994 devaluation…



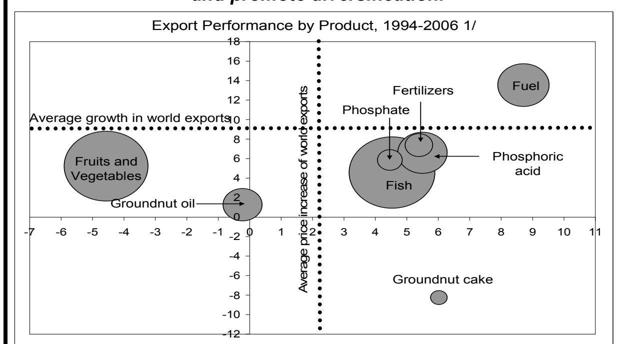
…has led to a continued reduction in its world market shares.



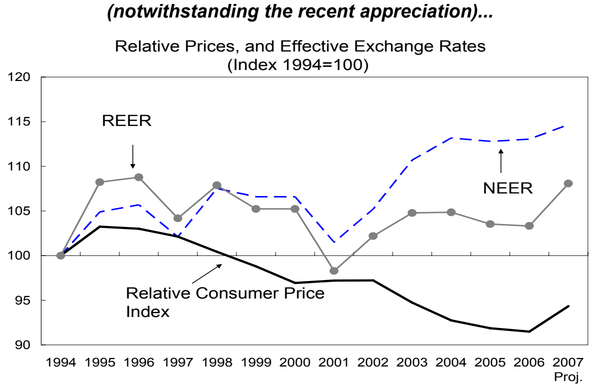
This could be attributable to the high concentration of Senegal's exports...



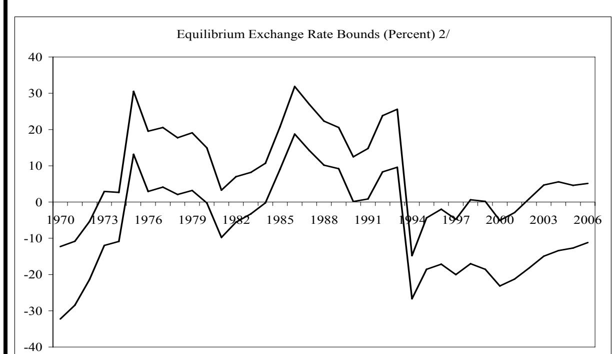
….in products that have faced unfavorable world demand. This underlines the need, as envisaged under the authorities' AGS, to lower production costs and promote diversification.



The authorities' diversification strategy should be facilitated by a relatively stable real effective exchange rate (notwithstanding the recent appreciation)...



...which staff estimates to be broadly in line with economic fundamentals, consistent with the assessment at the regional level.



Sources: IMF staff estimates and UN Comtrade.

1/ The figure shows that most of Senegal's export products are positioned below the heavy horizontal line that represents the average growth in world exports (9.4 percent) during the period 1994–2006. Some of Senegal's export products are positioned to the left of the heavy vertical line that represents the average rate of price increases of world exports (2 percent). The combination of relatively low growth in export volumes and prices for Senegalese products implies that demand for these products has been expanding less rapidly than demand for world exports.

2/ The equilibrium exchange rate bounds are calculated as the maximum percentage deviation from the equilibrium REER implied by different econometric estimation techniques (see Selected Issues Papers for Senegal (IMF Country report No. 07/336) and WAEMU).

Text Table 4. Senegal: Central Government Operations
(Percent of GDP)

	2005	2006	2007	2008	2009	2010
			Proj.			
Revenue and Grants	20.9	21.6	22.9	21.9	21.3	21.5
Tax revenue	18.6	19.2	19.8	19.7	19.1	19.3
Nontax revenue	0.6	0.8	0.8	0.6	0.6	0.6
Grants	1.7	1.5	2.3	1.7	1.7	1.7
Total expenditure and net lending	24.2	27.7	27.7	26.4	25.5	25.6
Current expenditure	13.8	17.3	14.8	14.5	14.2	14.1
Wages and salaries	5.6	6.0	6.3	6.1	6.0	6.0
Interest payments	0.9	0.9	0.7	0.7	0.7	0.7
Other	7.4	10.4	7.9	7.7	7.5	7.4
Of which: energy sector subsidies	0.7	3.2	0.8	1.0	0.1	0.0
Electricity subsidy 1/	0.5	1.8	0.0	0.0	0.0	0.0
Butane subsidy 2/	0.2	1.4	0.5	0.4	0.1	0.0
Subsidy to SAR 3/	0.0	0.0	0.3	0.6	0.0	0.0
Capital expenditure	10.0	9.9	12.7	12.0	11.3	11.5
Domestically financed capital expenditure	6.3	7.0	8.8	8.2	7.4	7.4
Of which: related to the energy sector 4/	...	...	1.2	0.8	...	...
Externally financed capital expenditure	3.7	2.9	3.8	3.7	3.9	4.1
Net lending	0.4	0.6	0.2	…	…	…
Overall balance (including grants) 5/	-3.0	-5.8	-4.7	-4.5	-4.1	-4.0
Basic fiscal balance	0.9	-3.4	-1.1	-0.9	-0.8	-0.6
Primary balance	-2.3	-5.3	-4.1	-3.8	-3.4	-3.3
Memorandum items:						
Arrears (end-of-period; CFAF bn)	0.0	2.3	0.0	0.0	0.0	0.0
Budgetary float (end-of-period; CFAF bn) 6/	33.7	58.3	33.7	30.0	30.0	30.0

Sources: Senegalese authorities and IMF Staff estimates.
1/ The large increase in 2006 reflects compensation by the government to SENELEC for an only partial adjustment of electricity tariffs to a rise in input costs, as well as additional transfers. Under the program, this price subsidy would be eliminated by applying market-based prices, while the need for additional subsidies should end with the recapitalization of SENELEC shown under capital expenditure.
2/ Subsidy on butane gas to be phased out by mid-2009.
3/ Reflects a temporary subsidy to support SAR's refining activity.
4/ Recapitalization of SENELEC stretched over two years.
5/ Including balance of selected public sector entities.
6/ Government expenditure for which payment orders have been issued but not yet executed.

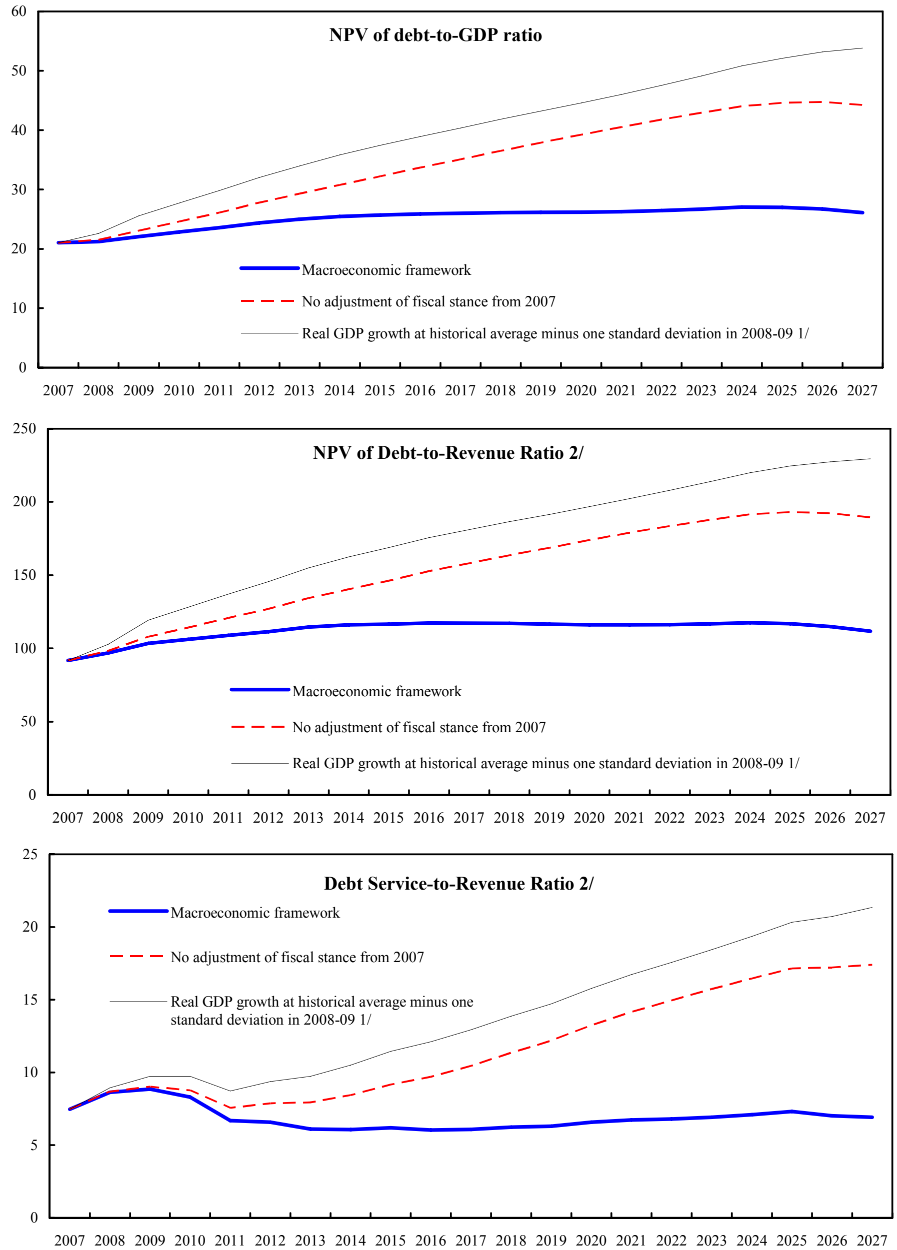
11. **Over the medium term, spending restraint will be essential.** The authorities intend to align their ambitious investment program with their planning and implementation capacity and limit domestically-financed capital spending—excluding the recapitalization of the energy sector—to about 7½ percent of GDP. They also decided to stabilize the wage bill following its surge in 2007,[3] limit new recruitment, and be cautious about any additional wage increases in 2007-08.

MEFP ¶ 12, 17-18

[3] This reflects several pre-election ad-hoc wage increases and the full-year impact of a special three-year recruitment program for social sectors that ended in 2006.

Figure 5. Senegal: Updated DSA--Indicators of Public Debt Under Alternative Scenarios, 2007-27

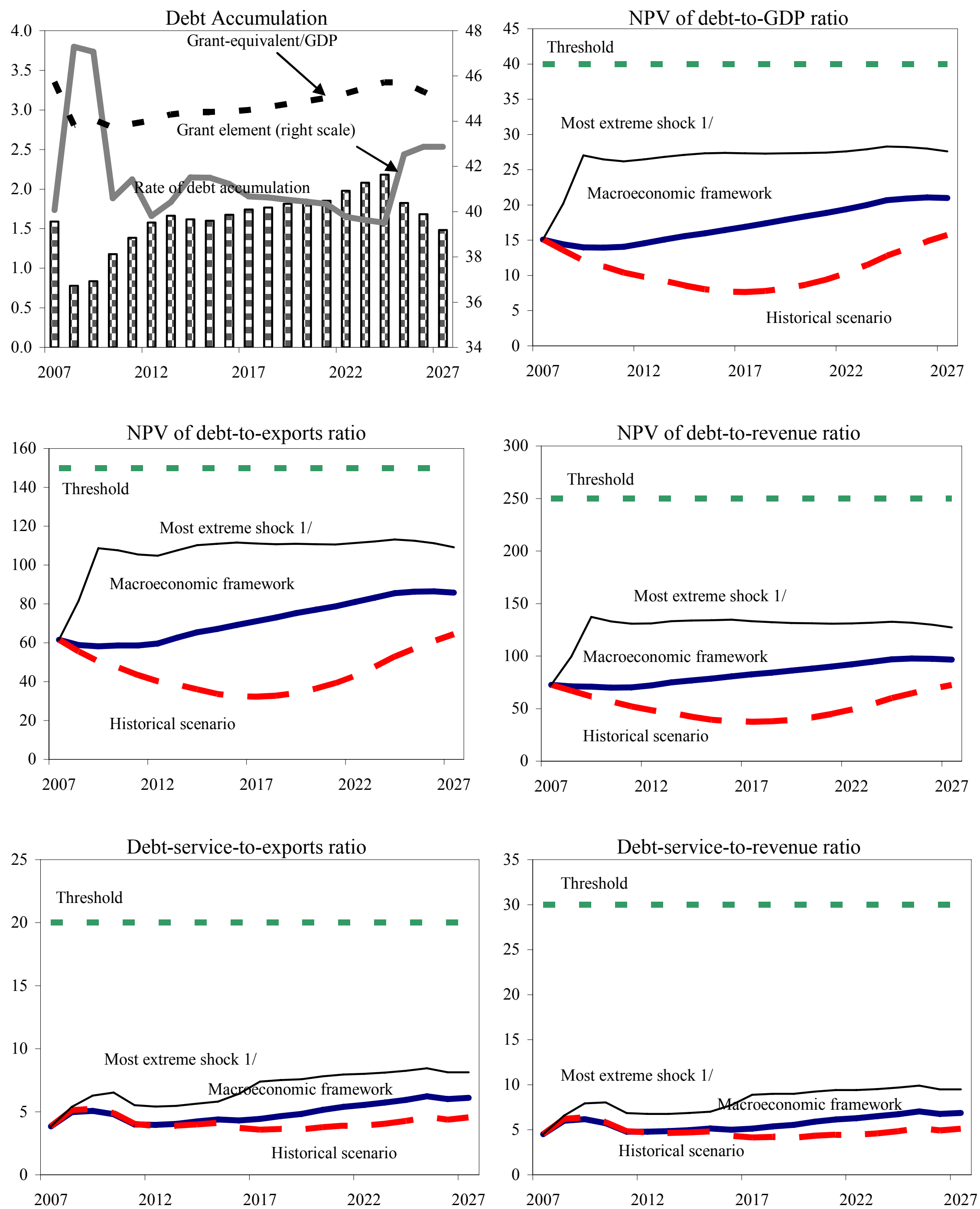
Consistent with the results of the last DSA (IMF Country Report No. 07/335), Senegal's public debt sustainability hinges on a reduction of the fiscal deficit to about 4 percent of GDP over the long term, as assumed under the macroeconomic framework.



Source: Staff projections and simulations.
1/ Corresponds to the most extreme stress test, defined as the test that yields the highest debt ratio in 2017.
2/ Revenue including grants.

Figure 6. Senegal: Updated DSA--Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-27

Consistent with the results of the last DSA (IMF Country Report No. 07/335), Senegal's PPG external debt ratios remain well below the policy dependent threshold under both the baseline and the most extreme stress test.



Source: Staff projections and simulations.

1/ Combination of the following two shocks: (i) real GDP growth at historical average minus one standard deviation in 2008-09; and (ii) net non-debt creating flows at historical average minus one standard deviation in 2008-09.

12. **Energy sector reform, undertaken in cooperation with the Bank and other donors, will be key to containing spending** (Box 3). An important first step to help reduce budgetary subsidies was the politically difficult announcement of a 6 percent increase in electricity prices effective November 1. Going forward, the authorities committed to having input costs automatically pass through to electricity tariffs by applying a market-based formula, with generally smaller increases for low income households; operationalizing this commitment will be a focal point in the first review, given its importance for fiscal sustainability. However, the butane gas subsidy will only gradually be phased out—due to environmental and social concerns—by mid-2009.[4]

MEFP ¶ 15-16

Box 3. The Energy Sector

Disruptions in the supply of petroleum products and electricity hurt the economy in 2006. Failure to adjust prices to market conditions generated losses at SAR and SENELEC, which government subsidies only partially offset. As a result, both entities accumulated arrears to suppliers, and SAR had to temporarily cease refining.

The authorities have begun addressing these problems under a comprehensive energy sector reform. The Bank is currently negotiating a sectoral reform program which other donors may join. The program aims to (i) restructure and recapitalize the sector, refine pricing formulas, and introduce cost-cutting measures; (ii) improve investment planning; and (iii) strengthen the sector's regulatory framework, foster private sector participation, and implement transparent procurement rules.

13. **The *composition of government spending* needs to be improved.** In 2006, energy sector subsidies crowded out spending on priority sectors (health, education, environment, judicial system), which fell to 28½ percent of total outlays—a decline of 4 percentage points from 2005. Moreover, funds reserved for HIPC- and MDRI-related spending were allocated to other uses. The program includes a commitment to replenish the accounts through which the HIPC/MDRI-related savings are channeled and allow priority spending to catch up. The program's fiscal adjustment path—with a fiscal deficit well above pre-MDRI levels—should allow sufficient space to address Senegal's priority needs.

MEFP ¶ 13

14. **The program seeks to sustain Senegal's *revenue performance*.** The authorities indicated that they will not grant any new tax exemptions or tax rate reductions other than for the special economic zone (see below). They will revisit recent subsidies to retailers reimbursing them for VAT and other taxes to limit food price increases. They noted that regional consultations had been launched to study modifications to the taxation of sensitive food products.

MEFP ¶ 19-20

[4] The authorities report that higher butane gas prices lead people to burn wood instead, causing deforestation and pollution.

15. **The expeditious elimination of *domestic arrears* and reduction of *other payment delays* are crucial for the financial health of the private sector.** Software limitations have made it difficult to establish the scope of arrears—WAEMU definition—and other payment delays.[5] Staff estimates the end-2006 stock of arrears at CFAF 2.3 billion (below 0.1 percent of GDP). However, the budgetary float (*instances de paiement*) has doubled from historical levels, to 1¼ percent of GDP. Under the program, the authorities will eliminate all arrears and reduce the budgetary float to its historical level (quantitative assessment criteria). To strengthen the monitoring of payment delays, they will link the Treasury accounting software (ASTER) to the expenditure software of the Ministry of Finance (SIGFIP) by 2009. In the interim, SIGFIP will be expanded to cover the entire expenditure chain, including payments, by end-2007 (structural assessment criterion).

MEFP ¶ 21

16. **A prudent *borrowing policy* is necessary to maintain debt sustainability.** Staff endorsed the authorities' preference for borrowing externally on concessional terms only. However, the authorities cautioned that they may request exceptions during the program period for selected infrastructure projects for which concessional financing or public-private partnerships (PPPs) cannot be arranged. They agreed to consult with staff before engaging in non-concessional borrowing. To respond flexibly to the volatility of external assistance and avoid future arrears, the authorities will develop a domestic financing program to regularly issue securities with increasingly longer maturities in the regional market. This should contain domestic debt below 10 percent of GDP. They also plan to conduct semiannual DSAs on their own.

MEFP ¶ 22-23

D. Strengthening Fiscal Governance and Transparency

The program focuses on:

- ***Dealing with remaining governance issues related to the new airport;***
- ***Containing the fiscal impact and governance issues of the planned special economic zone;***
- ***Strengthening procurement; and***
- ***Implementing the PFM action plan.***

17. **The program seeks to limit budgetary risks and address remaining governance concerns related to the *new airport*** (Box 4). The project-related contracts made available to Bank and Fund staff suggest that fiscal risks are limited. Moreover, the authorities will not provide guarantees to, or undertake spending for, the airport project company (AIBD)—directly or indirectly, with a few well-defined exceptions. They will also disclose the key elements of the airport contracts both on the Ministry of Finance website and in an annex to the 2008 Budget Law.

MEFP ¶ 30-32

[5] See Appendix I—Attachment III, Sections C and D.

Box 4. The New Dakar Airport

The new airport has been at the center of discussions between the authorities and Bank and Fund staff in recent years. Given the project's size (nearly US$500 million), budgetary risks have to be identified, tracked, and transparently disclosed.

Governance concerns about the airport tax, earmarked for repaying airport construction loans, are being addressed. The loans will be contracted by AIBD, the entity in charge of implementing the project. The authorities renewed commitments from the last PRGF program to transparently collect, record, and use the tax proceeds, and monthly reporting of this information on the Ministry of Finance's website began in September.

Full ownership of AIBD has reverted to the government. While bearing little risk, a small private investor had a 55 percent stake in AIBD and ultimately could have claimed 55 percent of profits from concession fees. To help assuage governance concerns, the government repurchased the stake, as contractually allowed, in September for about the same modest amount initially received.

Other budgetary risks appear limited. The project seems self-contained and largely budget-neutral. The main source of financing is the earmarked airport tax, and most risks, including design and construction, have been transferred to the private construction company. However, lower-than-expected demand could slow airport tax collection and thus delay loan repayment. There will also be some indirect budgetary costs (mostly associated with the provision of security services and extension of utility networks), which will be included in the budget and not exceed a cumulative ½ percent of GDP.

18. **The program aims at reducing risks associated with the planned creation of a s*pecial economic zone*** (Box 5).

- **Fiscal risks.** The authorities will not provide explicit or implicit subsidies, guarantees, or other assistance to support the private investor setting up the zone—except for investment with externalities beyond the zone (such as schools and hospitals). The project is to be at least revenue neutral, which may require adjusting the zone's currently envisaged tax exemptions or other compensatory measures. A study will be carried out, based on a methodology agreed with Fund staff, simulating the revenue impact of the zone (structural benchmark).

MEFP ¶ 33-34

- **Governance risks.** To help prevent conflicts of interest, the authorities committed to (i) excluding the private sector from participating in the zone's regulatory agency (APIX), and (ii) replacing APIX's recently granted general exemption from public sector legislation with well-defined specific exceptions (structural assessment criterion).

MEFP ¶ 35

Box 5. The Dakar Integrated Special Economic Zone (DISEZ)

The authorities recently decided to forego an industrial park project financed by the MCC and instead grant a concession to a Dubai investor to build and operate a large special economic zone. The investor will develop the infrastructure, financed mainly through FDI, on government-provided land, and rent sites to companies. The project is unlikely to start before end-2008 and construction should take about five years.

The project may be self-sustaining and worthwhile, but raises several issues:

- **Overly generous tax exemptions.** Companies in the zone would be exempt from import duties, the VAT, and the corporate income tax, and only pay a small turnover tax.
- **Unknown revenue implications.** Significant revenue losses could result if companies currently in Dakar move to the zone, but offsetting revenue gains are possible if companies move into DISEZ from abroad.
- **Potential conflict of interest.** In early 2007, the investment promotion agency (APIX) was assigned by law to manage DISEZ and regulate its activities. However, private sector participation in APIX was also made possible.
- **Exemption from public sector legislation.** APIX was exempted, in early 2007, from the law establishing the governing framework for public sector entities' management, accounting, budgetary controls, and rules of procurement.

While the program's structural conditionality addresses these concerns, and commitments in the MEFP aim at ringfencing the project's scope, further commitments from the authorities may be needed as DISEZ takes shape. The authorities agreed to consult with staff before signing the contract with the investor. Staff noted that certain features of the zone may need to be clarified and adjusted so as to ensure that its design follows best international practices. Staff will monitor the project with respect to its revenue neutrality, the equity of the fiscal system, and transparent execution, and additional structural benchmarks and assessment criteria may be proposed in future program reviews.

19. **Government *procurement practices* will be strengthened.** An institutional framework will be implemented to apply the recently enacted procurement code and establish an independent regulatory entity to enforce the code and conduct audits of awarded contracts (structural assessment criterion). The share of contracts awarded on a noncompetitive basis is to be halved to one fifth (indicative target).

MEFP ¶ 36-38

20. **Specific measures drawn from the *PFM action plan* developed with other donors are included in the program.** They are to enhance fiscal governance and transparency, raise the productivity of spending, strengthen implementation capacity, and reinforce tax administration (Text Table 5). Most require a multi-year reform effort, and technical assistance (TA) from the Fund and other providers may be needed—TA from the Fund to strengthen the framework for PPPs has been requested. Clearing the backlog of Treasury accounts to be submitted to the audit court was elevated to a structural benchmark given past delays and the emphasis on timely submission under the previous PRGF program.

Text Table 5. Additional Public Financial Management Measures Under the Proposed Program

PFM Objectives	Measures under the PSI Program	Related MEFP Paragraphs (Appendix I)
Align the budget with PRSP objectives by strengthening medium-term planning	Inform line ministries of budgetary allocations for the next three years, consistent with PRSP priorities.	¶ 25
Strengthen investment planning, monitoring, and evaluation	Gradually develop investment planning units in all ministries; increase reliance on cost-benefit analyses, especially for big investment projects and all PPPs; strengthen project execution and evaluation mechanisms; limit reallocation of resources between investment projects; have line ministries report recurrent cost implications of their projects to MoF.	¶ 25, 26, 27, 28
Improve monitoring and assessment of risks inherent to public sector operations	Prepare a Consolidated Investment Budget, based on economic classification; broaden fiscal coverage over the medium term to include public entreprises (PE), local governments, and social security accounts in government accounts; strengthen unit in charge of monitoring PE operations; enforce reporting requirements for PEs; publish detailed report on PE statistics; present fiscal risks from PE operations and estimate of contingent liabilities in annex to the budget; make quasi-fiscal activities of PEs explicit in budget.	¶ 27, 39, 40
Strengthen the framework for PPP projects and limit related fiscal risks	Subject PPP projects to cost-benefit-analyses and ensure their Value for Money; strengthen PPP unit in MoF; beef up legal framework for PPPs; introduce simple gateway process for PPPs; report on PPPs in annex to the budget; estimate contingent liabilities from PPP projects and include them in the DSA.	¶ 29
Improve the demarcation of fiscal years and limit the emergence of arrears	Shorten the complementary period for payment orders issued to end-December and for their settlement to end-February of the following year.	¶ 44
Improve budget execution	Limit exceptional expenditure without prior authorization to CFAF 30 bn at any time; Avoid off-budget expenditure.	¶ 21 ¶ 28
Define a legal framework for non-governmental public entities	Submit to Parliament a law that clarifies the terms on which agencies and other entities may be created, specifying their goals, decision-making bodies, and other mechanisms for tracking and monitoring their operations, as well as budgetary execution procedures.	¶ 43
Rationalize administrative ex-post controls	Clear the backlog of the end-year Treasury accounts not yet submitted to audit court (structural benchmark); clear the backlog of draft budget review laws not yet submitted to parliament.	¶ 42
Strengthen tax administration	Extend the tax management software SIGTAS to the rest of the Revenue Authority (DGID); make the software for data-sharing between the current three tax collecting agencies fully operational; prepare a study on the feasibility of a transfer of direct tax collection responsibilities from the treasury to the tax department.	¶ 45

E. Encouraging Private Sector Activity

The program focuses on:

- ***Implementing the authorities' AGS;***
- ***Improving the business environment; and***
- ***Making labor markets more efficient.***

21. **The authorities aim at accelerating *implementation of the AGS.*** The strategy, validated by the Prime Minister in January 2007, focuses on developing five sectors with presumed export potential and improving the business climate overall.[6] While progress has been made in streamlining administrative procedures for businesses, other reforms have lagged, and more needs to be done to stimulate private sector activity and thus achieve a sustained increase in economic growth. To elevate the AGS to the rank of a national priority and set the institutional framework for its expeditious implementation, the authorities committed to submitting to parliament an AGS framework law and adopt related implementation decrees by end-January 2008 (structural benchmark).

MEFP ¶ 46-50

22. **The authorities are eager to move forward on *labor market* reforms and enact all supporting legislation necessary to fully apply the labor code.** To this end, by end-March 2008, they will issue a decree to authorize that short-term employment contracts can be renewed repeatedly, particularly in seasonal sectors where standard contracts significantly raise costs (structural benchmark); at present, only one renewal is permissible.

MEFP ¶ 51

23. **Senegal still has non-tariff barriers that hinder competition.** The authorities, drawing on a donor-financed audit of production costs at the recently-privatized groundnut company SONACOS, will decide by end-2007 on the possible removal of the 25 percent tax on vegetable oil import operations and of the indicative value for the import price of palm oil, both of which protect SONACOS.

MEFP ¶ 55

F. Financial Sector Development

The program focuses on:

- ***Reducing financial sector vulnerabilities; and***
- ***Improving access to credit and capital.***

24. **The authorities aim at reducing *financial sector vulnerabilities* by addressing balance sheet issues at banks and the deficient legal and regulatory framework in the rapidly expanding microfinance sector.**[7]

[6] The five sectors include agro-industry, fisheries, electronic customer support services, tourism, and textiles.

[7] See *Senegal: Financial System Stability Assessment—Update* (April 2005).

- The surge in nonperforming loans in 2006 was related to the financial difficulties of ICS and SENELEC (Text Table 6). This compounds the Senegalese banks' traditional difficulties with excessive loan concentration. The authorities committed to enforcing prudential norms and ensuring that the recommendations of the regional banking commission are implemented. They intend to require banks to increase provisions if the finances of ICS or SENELEC deteriorate further, the restructuring of ICS does not occur, or the government guarantee for ICS loans is lifted.

MEFP ¶ 56-57

Text Table 6. Senegal : Financial Soundness Indicators for the Banking Sector

(In percent)

	2003	2004	2005	2006	2007 March
Capital to risk weighted assets	12.1	11.9	11.1	13.1	13.1
Loans to 5 largest borrowers to capital	141	131.4	179.9	103.7	108.8
Gross NPLs to total loans	13.3	12.6	11.9	16.8	16.7
Provisions to NPLs	75.3	75.7	75.4	52.0	43.9
NPLs net of provisions to total loans	3.3	3.4	3.2	8.7	9.4
NPLs net of provisions to capital	27.8	25.1	27.2	67.9	73.0

- Microfinance has expanded beyond microcredit and now accounts for one-tenth of private sector credit, driven by a proliferation of new institutions in a weak regulatory environment. To address these vulnerabilities, the authorities will submit a new regional law to Parliament by end-March 2008 that enhances the role of the BCEAO in the licensing and inspection of microfinance institutions and opens the sector to foreign investors (structural benchmark). This should also lead to a healthy consolidation in the sector.

MEFP ¶ 65-67

25. **The authorities want to increase *access to credit*.** To improve the process of collecting securitized claims, they plan to create a specialized chamber for handling commercial and banking cases, hire more judges, and provide for their training in economics and finance. Another barrier to bank lending—the poor quality of financial statements of SMEs—will be investigated, with a view to identifying ways to fight the widespread, but illegal, certification of accounts by non-registered accountants (structural benchmark).

MEFP ¶ 58-63

G. Program Monitoring

26. **The first year of the program under the PSI will be monitored through quantitative and structural conditionality** (MEFP, Tables 1 and 2). Five quantitative assessment criteria and one indicative target have been set. The assessment dates for the first year are end-December 2007 and end-June 2008, each followed by reviews; indicative objectives will be assessed at end-September 2007 and end-March 2008. The program also includes three structural assessment criteria and six structural benchmarks.

III. Staff Appraisal

27. **Senegal has arrived at a critical juncture.** The macroeconomic deterioration in 2006, which partially reflected policy slippages in the run-up to elections, moved the country off the path of macroeconomic stability it had enjoyed for more than a decade. The worsening of the fiscal situation largely reflected rising energy sector subsidies resulting from delayed adjustments in the sector. The concomitant crowding out of priority spending eroded the country's growth potential and slowed progress towards the MDGs, and the government's arrears and payment delays placed a heavy burden on the private sector.

28. **The authorities' determination to address key policy challenges under a PSI is welcome.** If implemented successfully, the program could enable Senegal to consolidate macroeconomic stability, regain fiscal soundness, address key obstacles in the economy, and make a major leap forward in improving fiscal transparency and governance and public sector effectiveness. The envisaged macroeconomic policies and structural reforms will provide the private sector with a framework that could allow it to become the engine of future growth.

29. **Returning the fiscal deficit to sustainable levels and expeditiously eliminating government payment delays to the private sector are of paramount importance.** The key lies in the government's ability to contain spending. Most importantly, embarking on a comprehensive energy sector reform will be crucial to prevent a continued budgetary drain by the sector and secure the supply of energy to the economy. Wage restraint, limiting and better prioritizing capital outlays, and curtailing nonpriority spending are other means to rein in the fiscal deficit. Eschewing non-concessional debt will also help contain debt dynamics. The envisaged fiscal reforms should help position Senegal well in modernizing its PFM systems.

30. **At the same time, Senegal should safeguard its record of tax collections.** The authorities should be cautious and guided by international best practices in designing the special economic zone. The zone's tax exemptions should be at least revenue neutral.

31. **The authorities' increased openness on the airport and other large investment projects has helped assuage governance concerns.** Their actions to address actual or perceived governance and transparency issues are welcome. More public explanation of their intentions with respect to these projects may also prove helpful.

32. **The main risks to the program are slower-than-projected growth, fiscal slippages, and weak implementation of structural reforms.** Besides being vulnerable to shocks (such as higher oil prices, drought, and locust invasion), Senegal's economy could suffer if energy supply problems remain unaddressed, ICS's recovery lags, or the private sector continues to face government payment delays. Delays in restructuring public enterprises could raise fiscal risks and endanger banking system soundness. Weakening

political resolve to implement structural reforms and address governance concerns could undermine policy credibility and reduce aid flows.

33. **The risks to the program are, on balance, manageable, and staff recommends approval of Senegal's request for a PSI.**

Table 1. Senegal: Selected Economic and Financial Indicators, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.			Proj.			
	(Annual percentage change)									
National income and prices										
GDP at constant prices	6.7	5.8	5.3	2.1	5.1	5.7	5.8	5.8	5.5	5.1
Of which: nonagriculture GDP	5.0	6.0	4.4	2.8	5.1	5.9	6.0	6.0	5.7	5.2
GDP deflator	0.5	0.4	2.3	3.1	3.9	3.3	2.4	2.2	2.3	2.2
Consumer prices										
Annual average	0.0	0.5	1.7	2.1	5.4	2.9	2.0	1.8	1.8	1.8
End of period	-1.4	1.7	1.4	3.9	4.1	2.5	1.9	1.8	1.8	1.6
External sector										
Exports, f.o.b. (in CFA francs)	-1.7	9.2	4.4	-4.2	2.9	4.8	6.2	6.9	9.0	9.3
Imports, f.o.b. (in CFA francs)	7.1	9.8	15.6	9.0	6.6	6.4	10.3	9.4	8.5	8.1
Export volume	-2.0	4.4	-3.7	-11.2	-3.0	6.9	7.3	9.2	8.8	8.3
Import volume	5.9	1.5	3.9	5.8	5.7	9.8	10.2	8.2	7.2	6.1
Terms of trade (deterioration (-))	-1.4	-3.4	-2.7	4.8	5.2	0.8	-1.1	-3.2	-0.9	-1.0
Nominal effective exchange rate	5.2	2.2	-0.3	0.2	…	…	…	…	…	…
Real effective exchange rate	2.5	0.1	-1.3	-0.6	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	5.4	3.1	8.6	5.0	12.3	8.3	8.9	7.9	7.1	6.4
Domestic credit	5.7	2.5	10.4	5.8	12.6	8.5	9.1	8.1	7.2	6.6
Credit to the government (net)	-4.3	-3.1	-4.1	3.0	6.4	2.5	3.3	2.6	2.1	1.6
Credit to the economy (percentage growth)	14.3	9.2	24.5	4.2	9.7	10.1	10.3	10.0	9.4	9.3
	(Percent of GDP, unless otherwise indicated)									
Government financial operations										
Revenue	18.1	18.3	19.3	20.0	20.6	20.2	19.6	19.8	19.9	20.2
Grants	1.9	2.1	1.7	1.5	2.3	1.7	1.7	1.7	1.7	1.7
Total expenditure and net lending	21.6	23.3	24.2	27.7	27.7	26.4	25.5	25.6	25.7	25.8
Overall fiscal surplus or deficit (-)										
Payment order basis, excluding grants	-3.3	-5.2	-4.6	-7.3	-6.9	-6.2	-5.8	-5.7	-5.7	-5.6
Payment order basis, including grants	-1.3	-3.1	-3.0	-5.8	-4.7	-4.5	-4.1	-4.0	-4.0	-3.9
Primary fiscal balance 1/	-0.5	-1.8	-2.3	-5.3	-4.1	-3.8	-3.4	-3.3	-3.3	-3.2
Basic fiscal balance 2/	1.0	0.7	0.9	-3.4	-1.1	-0.9	-0.8	-0.6	-0.5	-0.3
Gross domestic investment	25.9	26.6	29.8	29.2	32.6	32.4	33.8	35.7	36.4	36.9
Government	8.5	9.7	10.0	9.9	12.7	12.0	11.3	11.5	11.5	11.7
Nongovernment	17.4	16.9	19.8	19.3	19.9	20.4	22.5	24.2	24.9	25.1
Gross domestic savings	13.8	14.0	14.2	10.9	14.1	14.7	15.2	16.6	17.6	18.4
Government	8.3	8.4	7.9	3.5	8.1	7.5	8.0	8.4	8.4	8.7
Nongovernment	5.5	5.6	6.3	7.4	6.0	7.2	7.2	8.3	9.1	9.7
Gross national savings	19.7	20.6	22.0	19.1	23.0	22.6	23.0	24.4	25.3	26.3
External current account deficit (-)										
Excluding current official transfers	-8.0	-7.9	-9.3	-11.3	-11.6	-11.0	-12.0	-12.6	-12.3	-11.8
Including current official transfers	-6.1	-6.1	-7.8	-10.1	-9.6	-9.8	-10.8	-11.3	-11.1	-10.5
Central government domestic debt 3/	3.9	3.6	3.4	4.3	6.1	6.9	8.1	9.0	9.6	9.8
External public debt (nominal) 3/ 4/	50.8	44.1	42.6	18.0	18.7	19.7	20.1	20.7	21.5	22.6
External public debt service (in percent of exports) 4/	8.7	7.4	5.6	4.2	3.7	4.8	4.8	4.4	3.5	3.1
External public debt service (in percent of government revenue) 4/	12.9	10.9	7.9	5.4	4.4	5.8	5.9	5.3	4.2	3.7
GDP at current market prices (billions of CFA francs)	3,986	4,234	4,563	4,803	5,247	5,728	6,206	6,712	7,244	7,783

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

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and expenditure financed with HIPC Initiative and MDRI assistance.
3/ Debt outstanding at year-end.
4/ After HIPC and MDRI (from 2006) debt relief.

Table 2. Senegal: Balance of Payments, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.			Proj.			
	(Billions of CFA francs, unless otherwise indicated)									
Current account	-245	-257	-356	-485	-504	-560	-669	-759	-804	-821
Balance on goods	-470	-521	-691	-864	-949	-1,023	-1,163	-1,295	-1,399	-1,500
Exports, f.o.b.	731	798	832	798	821	860	914	976	1,065	1,164
Imports, f.o.b.	-1,201	-1,319	-1,524	-1,661	-1,770	-1,883	-2,077	-2,271	-2,464	-2,664
Services and incomes (net)	-87	-78	-70	-86	-87	-74	-91	-108	-100	-82
Credits	400	437	518	541	562	645	690	739	800	869
Debits	-487	-515	-588	-627	-649	-719	-781	-847	-900	-951
Of which : interest on public debt	-41	-42	-37	-36	-27	-32	-37	-39	-42	-42
Unrequited current transfers (net)	312	342	405	465	532	537	585	644	696	762
Private (net)	241	270	341	410	431	471	513	566	611	669
Public (net)	71	72	65	54	100	66	72	78	85	93
Of which: budgetary grants	19	19	12	9	41	17	18	20	21	23
Capital and financial account	459	281	234	542	576	702	729	834	867	898
Capital account	67	74	69	1,234	85	87	94	101	109	117
Private capital transfers	7	4	6	6	6	7	7	7	7	8
Project grants	60	70	63	64	79	80	87	94	101	109
Debt cancellation and other transfers 1/	0	0	0	1,163	0	0	0	0	0	0
Financial account	392	207	165	-692	491	615	636	733	759	781
Direct investment	29	34	28	47	143	219	287	363	346	340
Portfolio investment	13	-15	14	-3	32	50	51	48	51	53
Other investment	350	188	123	-736	317	347	298	322	361	388
Public sector (net)	18	32	33	-1,021	115	160	131	158	180	180
Of which : disbursements	91	157	154	146	181	213	189	215	235	235
program loans	0	13	21	39	43	78	34	36	39	39
project loans	91	144	133	107	138	135	156	179	197	197
other	0	0	0	0	0	0	0	0	0	0
amortization	-74	-127	-122	-1,166	-67	-53	-58	-57	-55	-55
Private sector (net)	133	129	84	286	202	187	166	165	181	208
Errors and omissions	198	27	6	-2	0	0	0	0	0	0
Overall balance	214	24	-122	57	71	142	60	75	64	77
Financing	-214	-24	122	-57	-71	-142	-60	-75	-64	-77
Net foreign assets (BCEAO)	-214	-126	-9	-83	-93	-149	-66	-81	-77	-90
Net use of Fund resources	-20	-23	-22	-66	0	0	0	0	-2	-3
Purchases	3	3	3	11	0	0	0	0	0	0
Repurchases	-23	-26	-24	-77	0	0	0	0	-2	-3
Other	-194	-102	12	-16	-93	-149	-66	-81	-75	-88
Deposit money banks	-40	0	26	-37	-11	-11	-12	-12	-13	-13
Payments arrears (reduction (-))	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/ 2/	40	101	105	63	32	17	18	18	26	26
Residual financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account balance										
As percentage of GDP (including current official transfers)	-6.1	-6.1	-7.8	-10.1	-9.6	-9.8	-10.8	-11.3	-11.1	-10.5
As percentage of GDP (excluding current official transfers)	-8.0	-7.9	-9.3	-11.3	-11.6	-11.0	-12.0	-12.6	-12.3	-11.8
Gross official reserves (billions of CFA francs)	577	668	662	661	754	904	971	1052	1128	1217
(in months of imports of GNFS)	4.5	4.8	4.1	3.7	4.0	4.5	4.4	4.4	4.4	4.4
Nominal GDP (billions of CFA francs)	3,986	4,234	4,563	4,803	5,247	5,728	6,206	6,712	7,244	7,783

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

1/ Reflects MDRI stock debt relief in 2006. Debt relief from the Fund is recorded as a capital transfer. Debt relief from the IDA and the AfDF on the amounts falling due in 2006 is shown as exceptional financing, while debt relief on amounts due in 2007 and beyond is recorded as a capital transfer.

2/ Until 2005, HIPC Initiative flow debt relief granted by the IMF is recorded as a grant, and that granted by the World Bank, the African Development Bank, Paris Club creditors,and Kuwait is recorded as exceptional financing.

Table 3. Senegal: Government Financial Operations, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.	Proj.					
				(Billions of CFA francs)						
Total revenue and grants	798	865	956	1,036	1,202	1,255	1,324	1,446	1,567	1,703
Revenue	720	777	880	963	1,082	1,158	1,219	1,332	1,444	1,572
Tax revenue	677	739	851	922	1,039	1,126	1,185	1,294	1,404	1,528
Income tax	159	174	178	219	244	276	305	333	365	400
Taxes on goods and services	417	462	444	533	577	646	703	767	835	905
Taxes on petroleum products	101	113	117	170	217	204	176	195	204	223
Nontax revenue	43	38	29	41	44	32	35	38	41	44
Grants	78	88	76	73	120	97	105	113	122	132
Budgetary	18	19	12	9	41	17	18	20	21	23
Budgeted development projects	60	70	63	64	79	80	87	94	101	109
Total expenditure and net lending	861	988	1,104	1,331	1,452	1,513	1,581	1,717	1,859	2,010
Current expenditure	530	565	632	829	779	828	881	949	1,026	1,097
Wages and salaries 1/	204	218	255	286	330	347	372	403	435	467
Interest due	45	47	41	42	35	41	45	49	54	56
Of which: external 2/	40	41	36	36	27	32	37	39	42	42
Other current expenditure	281	301	336	500	414	440	464	497	537	574
Transfers and subsidies 3/	141	147	165	308	206	216	229	244	262	282
Of which: SAR and butane subsidy	0	9	14	66	44	57	6	0	0	0
Of which: SENELEC	0	0	22	86	0	0	0	0	0	0
Goods and services	140	148	163	186	192	209	220	239	259	277
HIPC and MDRI current spending	0	6	8	7	16	15	14	14	16	16
Capital expenditure	339	410	455	475	665	685	702	769	834	914
Domestically financed	190	221	287	337	464	471	459	496	536	575
Of which: Without transfers to PEs	...	...	...	...	399	426	...	...	...	...
HIPC and MDRI financed	28	23	61	26	81	75	58	57	64	62
Non HIPC/MDRI financed	162	199	226	311	384	396	402	439	472	513
Externally financed	148	189	168	138	201	215	242	273	298	338
Net lending	-7	12	17	27	8	…	…	…	…	…
Of which: On-lending	3	24	28	33	16	…	…	…	…	…
Selected public sector entities balance 4/	11	-9	12	16	5	…	…	…	…	…
Primary fiscal balance 5/	-7	-85	-95	-236	-210	-217	-212	-222	-238	-251
Overall fiscal balance (including grants)	-52	-132	-136	-279	-245	-258	-257	-271	-292	-307
Overall fiscal balance (excluding grants)	-130	-220	-211	-352	-364	-355	-362	-385	-415	-439
Basic fiscal balance 6/	38	31	41	-165	-56	-51	-47	-40	-37	-23
Financing	52	132	136	279	245	258	257	271	292	307
External financing	69	142	161	121	159	208	180	203	231	258
Drawings	91	157	154	146	181	213	189	215	235	271
Program loans	0	13	21	39	43	78	34	36	39	41
Project loans	91	144	133	107	138	135	156	179	197	230
Amortization due	-74	-127	-122	-58	-67	-53	-58	-57	-55	-60
Debt relief and HIPC Initiative assistance 7/	44	109	113	41	32	17	18	18	26	26
T-bills and bonds issued in WAEMU	8	3	17	-8	13	30	31	28	25	21
Domestic financing	-12	-8	-28	158	85	51	78	68	61	49
Banking system	-14	-49	-45	128	112	53	80	70	64	52
Of which: T-bills and bonds	15	19	-6	23	155	60	87	79	73	60
Nonbank financing	2	41	17	30	-27	-2	-2	-2	-2	-2
Errors and omissions	0	-2	3	-1	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Arrears, WAEMU definition (billions of CFA francs)	0	0	0	2	0	0	0	0	0	0
Budgetary float (billions of CFA francs)	...	29.6	33.7	58	34	30	30	30	30	30
Airport travel tax earmarked for new airport (RDIA)	…	…	12	18	22	28	29	31	32	34
Grant received, assistance from the HIPC and MDRI Trusts	…	…	…	83	…	…	…	…	…	…
IMF MDRI savings on amortization and interest payments	…	…	…	20	21	13	10	7	5	2
MDRI debt relief from IDA and AfDF	…	…	…	1,109	…	…	…	…	…	…
IDA and AfDF MDRI savings on amortization and interest payments	…	…	…	31	27	43	45	47	49	50
HIPC Initiative expenditure 8/	28	29	69	14	49	33	18	18	26	26
Priority expenditure (percent of total expenditure) 9/	30.7	31.2	32.5	28.5	33.0	...	...	...	...	...
Change in bank deposits of public entities without counterpart in the fiscal accounts	-28	9	-14	1	…	…	…	…	...	...
Gross domestic product (billions of CFA francs)	3,986	4,234	4,563	4,803	5,247	5,728	6,206	6,712	7,244	7,783

Sources: Senegalese authorities; and staff estimates and projections.

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.
2/ Includes HIPC-financed capital expenditure.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
2/ From 2006, reflects post-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending
6/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.
7/ Until 2005, includes HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank, and Paris Club creditors.
8/ Refers to HIPC-financed capital and other expenditure.
9/ Defined as expenditure on health, education, environment, and judiciary sectors.

Table 4. Senegal: Government Financial Operations, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.			Proj.			
					(Percent of GDP)					
Total revenue and grants	20.0	20.4	20.9	21.6	22.9	21.9	21.3	21.5	21.6	21.9
Revenue	18.1	18.3	19.3	20.0	20.6	20.2	19.6	19.8	19.9	20.2
Tax revenue	17.0	17.4	18.6	19.2	19.8	19.7	19.1	19.3	19.4	19.6
Income tax	4.0	4.1	3.9	4.6	4.7	4.8	4.9	5.0	5.0	5.1
Taxes on goods and services	10.5	10.9	9.7	11.1	11.0	11.3	11.3	11.4	11.5	11.6
Taxes on petroleum products	2.5	2.7	2.6	3.5	4.1	3.6	2.8	2.9	2.8	2.9
Nontax revenue	1.1	0.9	0.6	0.8	0.8	0.6	0.6	0.6	0.6	0.6
Grants	1.9	2.1	1.7	1.5	2.3	1.7	1.7	1.7	1.7	1.7
Total expenditure and net lending	21.6	23.3	24.2	27.7	27.7	26.4	25.5	25.6	25.7	25.8
Current expenditure	13.3	13.3	13.8	17.3	14.8	14.5	14.2	14.1	14.2	14.1
Wages and salaries	5.1	5.1	5.6	6.0	6.3	6.1	6.0	6.0	6.0	6.0
Interest payments 1/	1.1	1.1	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Other current expenditure	7.1	7.1	7.4	10.4	7.9	7.7	7.5	7.4	7.4	7.4
Of which: Goods and services	3.5	3.5	3.6	3.9	3.7	3.7	3.6	3.6	3.6	3.6
Of which: Transfers and subsidies	3.5	3.5	3.6	6.4	3.9	3.8	3.7	3.6	3.6	3.6
Capital expenditure	8.5	9.7	10.0	9.9	12.7	12.0	11.3	11.5	11.5	11.7
Domestically financed	4.8	5.2	6.3	7.0	8.8	8.2	7.4	7.4	7.4	7.4
Of which: Without transfers to PEs	...	...	...	...	7.6	7.4	...	...	...	...
Externally financed	3.7	4.5	3.7	2.9	3.8	3.7	3.9	4.1	4.1	4.3
Net lending	-0.2	0.3	0.4	0.6	0.2	…	…	…	…	…
Selected public sector entities balance 2/	0.3	-0.2	0.3	0.3	0.1	…	…	…	…	…
Primary fiscal balance 3/	-0.5	-1.8	-2.3	-5.3	-4.1	-3.8	-3.4	-3.3	-3.3	-3.2
Overall fiscal balance										
Payment order basis, excluding grants	-3.3	-5.2	-4.6	-7.3	-6.9	-6.2	-5.8	-5.7	-5.7	-5.6
Payment order basis, including grants	-1.3	-3.1	-3.0	-5.8	-4.7	-4.5	-4.1	-4.0	-4.0	-3.9
Basic fiscal balance 4/	1.0	0.7	0.9	-3.4	-1.1	-0.9	-0.8	-0.6	-0.5	-0.3
Financing	1.3	3.1	3.0	5.8	4.7	4.5	4.1	4.0	4.0	3.9
External financing	1.7	3.4	3.5	2.5	3.0	3.6	2.9	3.0	3.2	3.3
Domestic financing	-0.3	-0.2	-0.6	3.3	1.6	0.9	1.3	1.0	0.8	0.6
Errors and omissions	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(Percent of GDP, unless otherwise indicated)					
Grant received, assistance from the HIPC and MDRI Trusts	…	…	…	1.7	…	…	…	…	...	...
IMF MDRI savings on amortization and interest payments	…	…	…	0.4	0.4	0.2	0.2	0.1	0.1	0.0
MDRI debt relief from IDA and AfDF	…	…	…	23.1	…	…	…	…	...	...
IDA and AfDF MDRI savings on amortization and interest payments	…	…	…	0.6	0.5	0.8	0.7	0.7	0.7	0.6
Airport travel tax earmarked for new airport (RDIA)	…	…	...	0.4	0.4	0.5	0.5	0.5	0.4	0.4
HIPC Initiative expenditure	0.7	0.7	1.5	0.3	0.9	0.6	0.3	0.3	0.4	0.3
Priority expenditure 5/	6.6	7.3	7.9	7.9	9.1	...	...	...	...	...
Wages and salaries (in percent of fiscal revenue)	30.1	29.5	30.0	29.7	30.5	30.0	30.5	30.2	30.1	29.7

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

1/ From 2006, reflects post-MDRI debt service schedule.
2/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants' pension fund (FNR).
3/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.
5/ Defined as expenditure on health, education, environment, and judiciary sectors.

Table 5. Senegal: Monetary Survey, 2003–08

	2003	2004	2005	2006	2007	2008
				Est.	Proj.	
			(Billions of CFA francs)			
Net foreign assets	551	676	660	780	883	1,042
Central Bank of West African States (BCEAO)	352	477	487	569	662	811
Commercial banks	199	199	173	210	221	232
Net domestic assets	730	770	894	972	1,187	1,359
Net domestic credit	849	881	1,032	1,122	1,342	1,518
Net credit to the government 1/	64	24	-35	11	123	176
Central bank	176	108	84	45	42	34
Commercial banks	-117	-94	-123	-46	70	130
Other institutions	6	10	4	12	12	12
Credit to the economy	785	857	1,067	1,111	1,219	1,342
Of which : crop credit	4	14	10	9	10	11
Other items (net)	-119	-111	-138	-151	-155	-159
Broad money (M2)	1,281	1,446	1,553	1,751	2,070	2,402
Currency outside banks	338	344	378	453	491	531
Total deposits	943	1,102	1,176	1,298	1,579	1,871
Demand deposits	495	563	593	652	793	940
Time deposits	448	538	582	646	786	931
			(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	26.1	9.8	-1.2	7.7	5.9	7.7
BCEAO	22.0	9.8	0.7	5.3	5.3	7.2
Commercial banks	4.1	0.0	-1.8	2.4	0.6	0.5
Net domestic assets	5.4	3.1	8.6	5.0	12.3	8.3
Net credit to the government	-4.3	-3.1	-4.1	3.0	6.4	2.5
Credit to the economy	10.1	5.6	14.5	2.9	6.2	6.0
Other items (net)	-0.3	0.6	-1.8	-0.8	-0.2	-0.2
Broad money (M2)	31.5	12.9	7.4	12.7	18.2	16.0
Memorandum items:			(Units indicated)			
Velocity (GDP/M2; end of period)	3.1	2.9	2.9	2.7	2.5	2.4
Nominal GDP growth (percentage growth)	7.2	6.2	7.8	5.3	9.2	9.2
Credit to the economy (percentage growth)	14.3	9.2	24.5	4.2	9.7	10.1
Credit to the economy/GDP (in percent)	19.7	20.2	23.4	23.1	23.2	23.4
Variation of net credit to the government (from previous year; billions of CFA francs)	-42.3	-40.2	-59.2	46.3	112.0	52.6
Central bank discount rate (end of period; in percent)	5.0	4.5	4.5	4.75	…	…

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

1/ There is a difference in government coverage of the fiscal and the monetary sectors. The change in bank deposits of public entities without counterparts in the fiscal accounts is shown as a memorandum item in Table 3. In 2006, the Fund MDRI-related cancellation of the central bank claim on the government is not reflected in the fiscal accounts, as they are presented on a cash basis. This operation is shown as memorandum item in Table 3.

Table 6. Senegal: Millennium Development Goals 1/

	1990	1995	2000	2005	2015
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day					
1. Population below US$1 a day (percent)	…	…	...	...	
2. Poverty gap at US$1 a day (percent)	…	6.0	...	...	
3. National household survey poverty incidence 2/	…	67.9	...	*57.1*	
4. Share of income or consumption held by poorest 20 (percent)	...	6.0	...	...	
Target 2: Halve between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	…	…	23.0	…	[10.8]
5. Population below minimum level of dietary energy consumption (percent)	...	...	…	...	
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	47.3	...	68.3	79.9	[100.0]
7. Percentage of cohort reaching grade 5 (percent)	…	...	...	…	
8. Youth literacy rate (percent ages 15–24)	40.1	…	…	…	
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	68.5	...	83.9	*87.1*	[100.0]
10. Ratio of young literate females to males (percent ages 15–24)	60.4	...	...	...	
11. Share of women employed in the nonagricultural sector (percent)	26.0	...	...	...	
12. Proportion of seats held by women in national parliament (percent)	13.0	...	12.0	19.0	
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate					
13. Under 5 mortality rate (per 1,000)	148.0	143.0	139.0	*121.0*	[49.3]
14. Infant mortality rate (per 1,000 live births)	90.0	84.0	80.0	*61.0*	
15. Immunization, measles (percent of children under 12 months)	51.0	80.0	41.0	*75.0*	
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	510.0	...		*434*	[127.5]
17. Births attended by skilled health staff (percent)	38.0	…	...	*52.0*	[75]
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. Prevalence of HIV (percent of population aged 15-24)	...	...	1.0	*1.5*	…
19. Contraceptive prevalence rate (percent of women aged 15-49)	0.0	0.0	0.0	…	
20. Number of children orphaned by HIV/AIDS	...	...	...	25,000	

Table 6. Senegal: Millennium Development Goals (concluded) 1/

	1990	1995	2000	2005	2015
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Malaria incidence (notified cases, per 100,000 people)	...	...	...	…	
22. Malaria prevention (percent of population aged under 5 using insecticide-treated bed nets)	...	...	...	…	
23. Tuberculosis incidence (per 100,000 people)	203.3	…	…	…	
24. Tuberculosis cases detected under DOTS (percent)	…	61.0	54.0	…	
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	49.0	...	46.2	45.0	
26. Nationally protected areas (percent of total land area)	...	...	...	...	
27. GDP per unit of energy use (2000 PPP U.S. dollar per kilogram oil equivalent)	5.0	5.0	5.0	…	
28. CO_2 emissions (metric tons per capita)	0.0	0.0	0.0	…	
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
29. Access to an improved water source (percent of rural population)	...	...	...	*65.0*	[82.0]
30. Access to an improved water source (percent of urban population)	66.0	...	78.0	*90.0*	[95.0]
Target 11: Achieve significant improvement in life of at least 100 million slum dwellers by 2020					
31. Access to improved sanitation (percent of rural population)	...	...	...	*19.1*	[59]
32. Access to improved sanitation (percent of urban population)	35.0	...	56.0	*60.0*	[78]
Goal 8. Develop a Global Partnership for Development					
Target 12: Develop and implement strategies for productive work for youth					
33. Youth unemployment rate (percent of total labor force ages 15–24)	...	...	...	...	
34. Fixed line and mobile telephones (per 1,000 people)	6.0	9.0	44.0	…	
35. Personal computers (per 1,000 people)	2.5	7.0	15.0	…	

Source: World Bank Staff and World Development Indicators.
1/ The data in italics refer to periods earlier than shown.
2/ The 2005 data come from the 2002/2003 national household survey.

Table 7. Financial Soundness Indicators for the Banking Sector, 2002–07
(Percent, unless otherwise indicated)

	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Mar.
Capital Adequacy 1/						
Capital to risk weighted assets	16.0	12.1	11.9	11.1	13.1	13.1
Regulatory capital to risk weighted assets	15.5	11.7	11.5	10.8	12.9	13.0
Capital to total assets	10.3	7.8	7.7	7.6	8.3	7.9
Asset composition and quality						
Total loans to total assets	58.3	59.6	57.1	64.0	63.8	61.7
Concentration: loans to 5 largest borrowers to capital	104.9	141.0	131.4	179.9	103.7	108.8
Sectoral distribution of loans						
Industrial	36.4	41.1	33.6	35.5	28.9	26.5
Retail and wholesale trade	22.2	19.9	19.3	17.0	18.9	19.9
Services, transport and communications	17.5	17.2	27.4	28.0	30.0	30.6
Gross NPLs to total loans 1/	18.5	13.3	12.6	11.9	16.8	16.7
Provisions to NPLs	70.5	75.3	75.7	75.4	52.0	43.9
NPLs net of provisions to total loans	5.5	3.3	3.4	3.2	8.8	9.4
NPLs net of provisions to capital	30.7	27.8	25.1	27.2	67.9	73.0
Earnings and Profitability						
Average cost of borrowed funds	2.2	1.8	2.0	2.0	…	…
Average interest rate on loans	9.7	8.7	11.7	11.8	…	…
Average interest margin 2/	7.6	6.7	9.7	9.8	…	…
After-tax return on average assets	1.8	1.8	1.8	1.6	…	…
After-tax return on average equity	21.1	22.1	17.6	15.8	…	…
Noninterest expenses/net banking income	45.5	48.9	48.7	47.9	…	…
Salaries and wages/net banking income	20.6	21.8	21.5	21.2	…	…
Liquidity						
Liquid assets to total assets	65.1	66.5	66.4	…	…	…
Liquid assets to total deposits	82.9	81.0	82.0	…	…	…
Total deposits to total liabilities	78.5	82.0	79.6	78.3	75.8	75.6

Source: Senegalese authorities.

1/ ICS loans backed by government guarantees have a 20 percent weight in the risk-weighted assets.
Banks had not made provisions against the overdue amount (about ½ of the total).
Total ICS debt with banks is approximately ⅓ of the total capital of the banking system.
2/ Excluding the tax on banking operations.

Table 8.Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-27
(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2004	2005	2006	Historical Average 5/	Standard Deviation 5/	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt 1/	47.6	46.0	22.3			24.7	26.5	28.2	29.7	31.1	32.4		36.9	45.5	
o/w foreign-currency denominated	44.1	42.6	18.0			18.7	19.7	20.1	20.7	21.5	22.6		27.8	40.3	
Change in public sector debt	-7.1	-1.7	-23.6			2.4	1.8	1.7	1.5	1.4	1.3		0.7	1.2	
Identified debt-creating flows	-7.0	2.7	-25.4			1.4	1.3	1.0	0.8	0.6	0.9		0.2	1.0	
Primary deficit	1.8	2.3	5.3	0.5	2.3	4.1	3.8	3.4	3.3	3.3	3.2	3.5	2.8	3.9	3.1
Revenue and grants	20.4	20.9	21.6			22.9	21.9	21.3	21.5	21.6	21.9		22.2	23.4	
of which : grants	2.1	1.7	1.5			2.3	1.7	1.7	1.7	1.7	1.7		1.7	1.7	
Primary (noninterest) expenditure	22.2	23.3	26.8			27.0	25.7	24.8	24.8	24.9	25.1		25.0	27.2	
Automatic debt dynamics	-6.2	2.9	-5.6			-1.5	-1.4	-1.4	-1.6	-1.6	-1.3		-1.8	-2.5	
Contribution from interest rate/growth differential	-3.3	-2.8	-1.4			-1.0	-1.1	-1.2	-1.4	-1.4	-1.4		-1.9	-2.5	
of which : contribution from average real interest rate	-0.3	-0.4	-0.4			0.1	0.2	0.2	0.2	0.2	0.1		-0.1	-0.4	
of which : contribution from real GDP growth	-3.0	-2.4	-1.0			-1.1	-1.3	-1.5	-1.5	-1.6	-1.5		-1.8	-2.1	
Contribution from real exchange rate depreciation	-2.9	5.7	-4.3			-0.5	-0.3	-0.2	-0.2	-0.2	0.0		...	...	
Other identified debt-creating flows	-2.6	-2.6	-25.0			-1.1	-1.1	-1.0	-1.0	-1.0	-1.0		-0.7	-0.4	
Privatization receipts (negative)	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-2.6	-2.5	-25.0			-1.1	-1.1	-1.0	-1.0	-1.0	-1.0		-0.7	-0.4	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.1	-4.3	1.8			0.9	0.5	0.7	0.7	0.7	0.4		0.4	0.2	
NPV of public sector debt	3.6	3.4	4.3			21.0	21.2	22.1	22.8	23.6	24.4		26.0	26.1	
o/w foreign-currency denominated	0.0	0.0	0.0			15.0	14.4	13.9	13.9	14.0	14.6		16.9	20.9	
o/w external	...	...	...			15.0	14.4	13.9	13.9	14.0	14.6		16.9	20.9	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.2	4.2	7.0			6.6	7.5	7.6	8.3	8.5	8.7		8.8	8.3	
NPV of public sector debt-to-revenue and grants ratio (in percent)	17.4	16.0	20.1			91.8	96.9	103.4	106.1	108.9	111.5		117.2	111.8	
NPV of public sector debt-to-revenue ratio (in percent)	19.4	17.4	21.6			102.0	105.0	112.3	115.1	118.2	120.8		126.9	120.5	
o/w external 3/	…	…	…			72.6	71.0	71.0	69.9	70.2	72.1		82.5	96.7	
Debt service-to-revenue and grants ratio (in percent) 4/	9.0	6.3	8.0			7.5	8.6	8.9	8.3	6.7	6.6		6.1	6.9	
Debt service-to-revenue ratio (in percent) 4/	10.0	6.9	8.7			8.3	9.4	9.6	9.0	7.3	7.1		6.6	7.5	
Primary deficit that stabilizes the debt-to-GDP ratio	8.9	4.0	28.9			1.7	2.0	1.8	1.8	1.9	1.9		2.1	2.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.8	5.3	2.1	4.4	2.0	5.1	5.7	5.8	5.8	5.5	5.1	5.5	5.1	5.1	5.0
Average nominal interest rate on forex debt (in percent)	2.0	1.9	1.8	1.7	0.4	1.4	2.0	2.2	2.2	2.1	1.9	1.9	1.6	1.3	1.5
Average real interest rate on domestic currency debt (in percent)	3.2	0.8	1.3	0.8	1.5	6.8	3.3	2.7	2.0	1.9	1.6	3.0	1.1	0.7	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.1	13.8	-10.4	0.3	12.7	-3.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.4	2.3	3.1	1.9	1.1	3.9	3.3	2.4	2.2	2.3	2.2	2.7	2.3	2.3	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	14.8	10.3	17.6	9.7	10.6	5.8	0.6	1.9	6.2	5.8	5.9	4.4	5.6	6.6	5.6
Grant element of new external borrowing (in percent)	...	...	...			40.1	47.3	47.1	40.6	41.4	39.8	42.7	40.7	42.9	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ Includes central government domestic debt and public and publicly guaranteed external debt. Gross debt is used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 9. Country: External Debt Sustainability Framework, Baseline Scenario, 2004-2027 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	**70.3**	**60.4**	**44.7**			**43.6**	**43.5**	**43.5**	**43.6**	**44.0**	**45.1**		**50.3**	**58.4**	
o/w public and publicly guaranteed (PPG)	47.5	40.5	18.9			18.2	18.1	18.3	18.7	19.3	20.3		25.0	32.8	
Change in external debt	-1.8	-10.0	-15.7			-1.1	-0.1	0.0	0.1	0.5	1.1		0.9	0.0	
Identified net debt-creating flows	-5.1	2.0	5.6			4.9	3.7	3.8	3.6	4.1	4.1		3.3	0.9	
Non-interest current account deficit	**4.7**	**6.7**	**9.0**	**4.9**	**2.0**	**9.1**	**9.0**	**9.9**	**10.2**	**10.0**	**9.5**		**8.9**	**6.7**	8.2
Deficit in balance of goods and services	12.7	15.5	18.4			18.5	17.7	18.6	19.0	18.8	18.5		18.1	16.1	
Exports	27.2	27.2	25.8			24.5	24.5	24.0	23.8	24.0	24.4		23.8	24.4	
Imports	39.9	42.7	44.2			42.9	42.2	42.6	42.8	42.8	42.9		41.9	40.5	
Net current transfers (negative = inflow)	-8.1	-8.9	-9.7	-6.3	2.4	-10.1	-9.4	-9.4	-9.6	-9.6	-9.8		-10.0	-10.3	-10.1
o/w official	-1.7	-1.4	-1.1			-1.9	-1.2	-1.2	-1.2	-1.2	-1.2		-1.2	-1.2	
Other current account flows (negative = net inflow)	0.1	0.1	0.3			0.7	0.7	0.8	0.8	0.8	0.8		0.8	1.0	
Net FDI (negative = inflow)	**-0.8**	**-0.6**	**-1.0**	**-1.3**	**0.8**	**-2.7**	**-3.8**	**-4.6**	**-5.4**	**-4.8**	**-4.4**		**-4.4**	**-4.3**	-4.4
Endogenous debt dynamics 2/	**-9.0**	**-4.1**	**-2.4**			**-1.4**	**-1.5**	**-1.5**	**-1.2**	**-1.2**	**-1.1**		**-1.2**	**-1.6**	
Contribution from nominal interest rate	1.4	1.1	1.1			0.5	0.7	0.8	1.1	1.1	1.0		1.1	1.2	
Contribution from real GDP growth	-3.6	-3.5	-1.2			-2.0	-2.3	-2.3	-2.3	-2.2	-2.1		-2.4	-2.8	
Contribution from price and exchange rate changes	-6.8	-1.7	-2.3			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**3.3**	**-12.0**	**-21.3**			**-6.0**	**-3.8**	**-3.8**	**-3.5**	**-3.6**	**-3.0**		**-2.4**	**-0.8**	
o/w exceptional financing	-13.0	-2.3	-27.3			-0.6	-0.3	-0.3	-0.3	-0.4	-0.3		-0.2	-0.1	
NPV of external debt 4/	...	...	41.7			40.4	39.8	39.2	38.8	38.8	39.4		42.2	46.6	
In percent of exports	...	...	161.4			165.1	162.7	163.0	163.3	161.7	161.4		177.7	190.6	
NPV of PPG external debt	**...**	**...**	**16.0**			**15.1**	**14.4**	**14.0**	**13.9**	**14.1**	**14.6**		**16.9**	**21.0**	
In percent of exports	**...**	**...**	**61.7**			**61.6**	**58.8**	**58.2**	**58.6**	**58.6**	**59.6**		**71.1**	**85.8**	
In percent of government revenues	**...**	**...**	**75.7**			**72.6**	**71.0**	**71.0**	**69.9**	**70.2**	**72.1**		**82.5**	**96.7**	
Debt service-to-exports ratio (in percent)	**18.2**	**14.3**	**11.8**			**11.3**	**16.8**	**17.8**	**18.5**	**17.5**	**17.1**		**18.3**	**19.7**	
PPG debt service-to-exports ratio (in percent)	**7.4**	**5.6**	**4.2**			**3.8**	**5.0**	**5.1**	**4.8**	**4.0**	**4.0**		**4.4**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**10.1**	**8.3**	**5.2**			**4.5**	**6.0**	**6.2**	**5.7**	**4.8**	**4.8**		**5.1**	**6.9**	
Total gross financing need (billions of U.S. dollars)	0.7	0.9	1.0			1.0	1.1	1.2	1.3	1.4	1.5		2.1	3.4	
Non-interest current account deficit that stabilizes debt ratio	6.5	16.7	24.7			10.2	9.1	9.9	10.1	9.6	8.4		8.0	6.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.8	5.3	2.1	4.4	2.0	5.1	5.7	5.8	5.8	5.5	5.1	5.5	5.1	5.1	5.0
GDP deflator in US dollar terms (change in percent)	10.4	2.6	3.9	2.1	9.7	10.7	4.2	2.9	2.9	3.2	2.2	4.4	2.3	2.2	2.3
Effective interest rate (percent) 5/	2.2	1.7	1.9	1.9	0.3	1.4	1.8	2.1	2.7	2.7	2.5	2.2	2.4	2.2	2.4
Growth of exports of G&S (US dollar terms, in percent)	19.3	8.0	0.8	6.1	9.4	10.3	10.0	7.0	7.7	9.9	9.2	9.0	7.6	7.8	7.4
Growth of imports of G&S (US dollar terms, in percent)	20.1	15.7	9.9	9.8	10.1	13.0	8.1	10.1	9.4	8.9	7.6	9.5	7.1	7.2	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.1	47.3	47.1	40.6	41.4	39.8	42.7	40.7	42.9	41.0
Aid flows (in billions of US dollars) 7/	0.4	0.5	0.5			0.7	0.7	0.7	0.8	0.9	0.9		1.3	3.1	
o/w Grants	0.2	0.1	0.1			0.2	0.2	0.2	0.2	0.3	0.3		0.4	0.8	
o/w Concessional loans	0.0	0.1	0.2			0.3	0.4	0.3	0.4	0.4	0.4		0.7	2.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	2.8	2.9	2.8	2.8	2.9		3.0	3.1	3.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			68.0	69.4	68.4	63.7	63.9	61.7		61.1	62.2	60.3
Memorandum items:															
Nominal GDP (billions of US dollars)	8.0	8.7	9.2			10.7	11.8	12.8	14.0	15.2	16.3		23.4	47.7	
(NPVt-NPVt-1)/GDPt-1 (in percent)						1.6	0.8	0.8	1.2	1.4	1.6	1.2	1.7	1.5	1.8

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

APPENDIX I. SENEGAL—THREE-YEAR POLICY SUPPORT INSTRUMENT

Attached hereto is a letter from the Minister of State, Minister of Economy and Finance dated October 3, 2007 (the "Letter"), with an annexed Memorandum of Economic and Financial Policies of the Government (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), requesting from the International Monetary Fund (the "Fund") a Policy Support Instrument (the "Instrument"), and setting forth:
(a) the objectives and economic and financial policies (the "Program") that the authorities of Senegal intend to pursue during the period of the Instrument;
(b) the policies and measures that the authorities of Senegal intend to pursue during the first year of the Instrument, including a quantified macroeconomic framework for the first 12 months under the Instrument; and
(c) understandings of Senegal with the Fund regarding reviews that will be made of progress in realizing the objectives of the Program.

To support these objectives and policies, the Fund approves this Instrument for a period of three years from November 2, 2007, in accordance with the following provisions, and subject to Decision No. 13561-(05/85), adopted October 5, 2005, as amended, on Policy Support Instruments:

1. Senegal's implementation of the Program will be assessed by the Fund through reviews:
(a) the first review and the second review are scheduled to be conducted by June 30, 2008 and December 31, 2008, respectively, as specified in paragraph 68 of the MEFP.

2. In the absence of the requisite waivers of nonobservance being granted, a review will not be completed if:
A. with respect to any review:
(1) at any time during the period of this Instrument:
(i) the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government, or
(ii) the ceiling on the accumulation of the stock of domestic payment arrears by the government, or
(iii) the ceiling on the accumulation of the stock of external payment arrears by the government,
as specified in Table 2 of the TMU and further specified in the TMU was not observed; or;
(2) at any time during the period of this Instrument, Senegal
(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or
(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons; or;

B. with respect to the first review:

(1) the data as of December 31, 2007 indicate that:

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

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

as specified in Table 2 of the TMU and further specified in the TMU was not observed; or;

(2) by December 31, 2007, Senegal has not carried out its intentions to

(i) expand the SIGFIP software to the payment stage of the expenditure chain, in order to allow a comprehensive monitoring of payment arrears, as specified in Table 1 of the TMU and in paragraph 21 of the MEFP, or

(ii) amend or revoke Law 2007-13 to modify the status of APIX, as specified in Table 1 of the TMU and in paragraph 35 of the MEFP, or

(iii) issue a Prime Minister's circular letter in order to implement the new legal framework for procurement with effect from January 1, 2008, as specified in Table 1 of the TMU and in paragraphs 36 through 38 of the MEFP; or;

C. with respect to the second review:

the data as of June 30, 2008 indicate that any of the floors and ceilings referred to in paragraph 2.B.(1)(i) and (ii) above, as specified in Table 2 of the TMU and further specified in the TMU, was not observed.

3. In accordance with paragraph 4 of the Letter, Senegal will provide the Fund with such information as the Fund requests in connection with the progress of Senegal in implementing the policies and reaching the objectives of the Program.

4. In accordance with paragraph 3 of the Letter, during the period of this Instrument, Senegal will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government, or whenever the Managing Director of the Fund requests such a consultation. These consultations may include correspondence and visits of officials of the Fund to Senegal or representatives of Senegal to the Fund.

APPENDIX I—ATTACHMENT I

LETTER OF INTENT

Paris, France
October 3, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. de Rato,

1. The attached Memorandum summarizes the economic and financial policies of the government of Senegal for the period 2007-10. The government requests that these policies, which aim at macroeconomic stability, laying the foundation for sustainable growth, reducing poverty, and deepening fiscal and financial sector reforms, be supported by the International Monetary Fund (IMF) under a three-year Policy Support Instrument (PSI).

2. A PSI is, in the government's view, the appropriate vehicle at the present time to maintain a close policy dialogue with the IMF and signal commitment to sound policies to the international community. In the government's view, support under a PRGF would not be appropriate as Senegal currently has no IMF financing needs. Senegal also has a long tradition of macroeconomic stability that, although temporarily disrupted in 2006, the government aims to safeguard through the implementation of the policies set out in the attached Memorandum. The government is determined to adhere to the timelines for implementation of the program, as laid out in the Memorandum, and comply with the semi-annual review schedule under the PSI.

3. The government believes that the policies and measures set forth in the attached Memorandum are adequate to achieve the objectives of a PSI program. Given its commitment to these objectives, it will promptly take any additional measures necessary for their achievement. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

4. The government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The government authorizes the IMF to publish this letter, the attached Memorandum, and the related Staff Report.

Sincerely yours,
/s/

Abdoulaye Diop
Minister of State, Minister of Economy
and Finance

Attachment: Memorandum of Economic and Financial Policies

APPENDIX I—ATTACHMENT II

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Paris, October 3, 2007

I. INTRODUCTION

34. The Senegalese government is committed to achieving the MDGs as set out in its poverty reduction strategy paper (PRSP—II). That paper aims at laying the foundation for strong, well-balanced, and more equitably distributed economic growth. In particular, it envisages the continuation of prudent macroeconomic policies and the acceleration of structural reforms.

35. This memorandum describes recent economic trends in Senegal and presents the government's economic and financial program for the period 2007–10. With regard to reforms, the memorandum describes measures to enhance fiscal transparency and strengthen public expenditure management, promote private sector development and growth, and enable the financial sector to make a greater contribution to development while reducing the sector's vulnerabilities. These measures will be accompanied by reforms in other sectors (energy, groundnuts, and the judiciary, for example) undertaken with the support of development partners. In order to improve the effectiveness of its economic program and attain its development goals, the government intends to promote more effective coordination among donors. The government will especially encourage the development of a matrix of agreed measures to harmonize budget support.

II. ECONOMIC TRENDS AND REFORMS DURING 2000-07

36. Senegal's economic and financial situation was marked by robust growth and a high degree of macroeconomic stability during 2000–05. Indeed, real GDP growth averaged around 4½ percent. During the period, inflation (as measured by the Harmonized Index of Consumer Prices (HICP)) averaged 1½ percent and the current account deficit 6 percent of GDP. Debt sustainability was strengthened thanks to substantial debt relief under the HIPC and MDRI initiatives.

37. Fiscal policy remained prudent over this period, with a measured increase in the budget deficit which averaged 1½ percent of GDP for the period 2000–05. This was facilitated by the good performance of the revenue authority and a limited increase in government expenditure. Indeed, the strengthened tax system contributed to an annual average increase in tax revenues of more than 9 percent during 2000–05, raising the tax-to-GDP ratio to above 18½ percent in 2005, compared to 16 percent in 2000. At the same time, the increase in government expenditure was kept under control and primarily affected capital expenditure which grew by over 4 percent of GDP during 200-05. Education and health expenditures increased over the period (by 1.7 percent and 0.7 percent of GDP, respectively), followed by a decline in 2006. The government also implemented a program for recruiting

5000 civil servants per year during 2003–06, primarily for the social sectors and revenue-collecting entities.

38. Nonetheless, macroeconomic performance has worsened over the last two years. The increase in international oil prices and the decline in agricultural production have contributed to a slowdown in growth to about 2 percent and a widening of the current account deficit to about 10 percent of GDP in 2006. Year-on-year inflation was nearly 7 percent in July 2007 as against 1 percent in June 2006. The disruptions in the operations of the chemical company, *Industries Chimiques du Sénégal* (ICS), the electricity company, *Société Nationale d'Électricité* (SENELEC), and the oil refinery, *Société Africaine de Raffinage* (SAR), have exacerbated these developments and led to heightened vulnerabilities in the banking system.

39. Fiscal policy has also become more expansionary, since the budget deficit stood at around 6 percent of GDP in 2006, notwithstanding a further rise in budget revenues. This development mainly reflected an upturn in energy subsidies and an increase in the wage bill. As a result, cash flow problems led to the accumulation of arrears and other delayed payments to suppliers by year-end. Delays in the restructuring of ailing public enterprises have also added risks for the public finances.

40. With respect to structural reforms, progress has been achieved in various sectors. In the budget area, in addition to measures to improve tax collection, reforms have been implemented to enhance the transparency and efficiency of public resource management. The government has also taken steps to encourage private sector development, reform the groundnut sector, and improve financial sector soundness. In spite of the progress achieved in these areas, the Senegalese economy continues to face significant challenges. The economic and financial program described below is intended to address these challenges. This program will be implemented with the support of development partners and in particular the International Monetary Fund (IMF).

III. Objectives of the Three-Year Program and Macroeconomic Framework

41. The government's economic and financial program aims at preserving macroeconomic stability, in particular low inflation and public debt sustainability, and at laying the foundation for strong economic growth and poverty reduction. Given the recent deterioration in public finances, a prudent fiscal policy will be the main instrument to achieve this objective. In addition, as in the past, the regional framework for monetary and exchange rate policies will also help keep inflation in check and preserve macroeconomic stability.

42. The government will continue to base its financial policies on a projected average growth rate of around 5½ percent in the medium term, broadly in line with the PRSP-II baseline scenario. The growth outlook for 2007–10 is favorable, given the projected pick-up in the agriculture sector, the resumption of operations of ICS, and the implementation of major infrastructure projects. The government intends to boost the economy's growth potential in order to make more rapid progress toward the MDGs.

43. With respect to inflation in Senegal, the WAEMU target of 3 percent per year should be only temporarily exceeded. Indeed, in the wake of an increase to about 5½ percent on

average in 2007, reflecting the surge in international prices of certain foodstuffs and the adjustment of administered prices in the energy sector, the program envisages that inflation (as measured by the HICP) should return rapidly to its historical trend of 2 percent per year. Prudent fiscal and borrowing policies should help contain external public debt, to around 20½ percent of GDP by 2010. At the same time, domestic debt is expected to edge up to about 9 percent of GDP. The current account deficit (including official transfers) should hover around 10 to 11 percent of GDP through 2010, primarily reflecting the impact of large-scale infrastructure projects. This deficit should be largely financed through foreign direct investment linked to these projects.

IV. Macroeconomic Policy Implementation

A. Fiscal Policy Stance

44. Mindful that the level of the current overall fiscal deficit (including grants) is high from the perspective of debt sustainability, and given the state's rising contingent liabilities, the government is committed to reducing the deficit to about 4 percent of GDP over the medium term. This level is regarded as sustainable. Given the financing constraints that Senegal faces, a higher deficit level could cause an accumulation of domestic payment arrears. Furthermore, the additional government securities that would need to be issued to finance a larger deficit might crowd out the private sector. The reduction in the fiscal deficit will go hand in hand with a gradual decrease in the basic fiscal deficit which, over time, should be close to balance, in accordance with the relevant WAEMU convergence criterion.

45. In order to attain this fiscal deficit objective, the government will be cautious in its expenditure program. In particular, the government intends to phase out subsidies for the energy sector, contain the wage bill and other current expenditures, and better prioritize capital expenditure. Concerning revenues, the government will pursue its efforts to maintain a good collection performance.

46. In spite of the need to adjust the budgetary trajectory, the government plans to continue increasing spending in favor of priority sectors, including health, education, justice, and the environment. The upward trend in allocations to these sectors relative to total expenditure was interrupted in 2006, with a 4 percentage point decline to 28.5 percent of total expenditure. This development will be corrected with a view to attaining the PRSP-II medium-term objective of an allocation of 40 percent of total expenditure to priority sectors. In 2007, this allocation will be 33 percent, i.e., CFAF 480 billion. Some of the resources freed up by the MDRI and HIPC initiatives in 2006 have been used to finance expenditure in nonpriority sectors on account of cash flow problems. The amounts spent—a total of CFAF 33.5 billion—will be replenished in the relevant accounts at the Central Bank of West African States (BCEAO); CFAF 17.7 billion have already been replenished, with the remainder following in 2008. In the future, these resources will be earmarked exclusively for health, education, and other priority social services.

47. Concerning 2007, the government will take corrective measures to limit the overall budget deficit (including grants) to 4¾ percent of GDP. This reduction in the deficit relative to 2006 is essential in light of the financing problems the government may face if it had to

finance a higher deficit. To achieve this objective, and regularize resources and expenditures for projects related to the Organization of the Islamic Conference (OIC) and any other potential resources, a 2007 Supplementary Budget Law (LFR) was submitted to the National Assembly in September 2007. While safeguarding expenditure for priority sectors and maintaining the basic infrastructure, the government intends to proceed with caution with respect to other current spending and to be more selective with regard to capital outlays. Previously announced measures with a major impact on the wage bill will be phased in only gradually. Lastly, the reduction in the budget deficit will be accompanied by a complete clearance of arrears and prudent debt management.

B. Trends in Expenditures

48. The deterioration in the fiscal position in 2006 was primarily linked to an increase in subsidies to the energy sector in the face of an upsurge in oil prices. The government recognizes that fiscal consolidation will hinge on a comprehensive reform of the energy sector, which would also help boost private investment and overcome the energy supply constraints that dampen growth. In implementing this reform, the authorities will rely on the matrix for the energy sector rehabilitation plan discussed and agreed with principal donors, which is expected to lead to budgetary aid from them (including the World Bank). The measures to be implemented in the context of this plan will aim to: (i) rehabilitate the financial situation of SENELEC and SAR, through financial restructuring of these enterprises (recapitalization and restructuring of debt) and improvements to the pricing mechanisms in order to reflect market conditions and promote the efficient use of energy and cost savings; (ii) improve planning in the energy sector, by developing a strategy aimed at promoting private sector participation and reforming the decision-making process for investment projects; and (iii) enhance governance in the sector, by strengthening the regulatory framework, improving the transparency and functioning of the *Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP), deciding on the potential role of the private sector in the management of SENELEC, advancing the government's divestiture from SAR, and implementing more effective procurement procedures by end-2007. These principles will be set forth in a letter of sectoral policy to be adopted at the latest by end-October 2007.

49. Pending an agreement on this reform program, and in order to achieve a rapid reduction in subsidies for SENELEC, the government will apply market-based prices and adjust electricity tariffs based on the existing formula. This formula might be fine-tuned in the context of energy sector reform. The government authorized and announced (through official publication) in September 2007 an adjustment of electricity prices by 6 percent effective November 1, 2007 (completed prior action). The government accepts the general principle of market-based pricing, and agrees to adjust electricity tariffs according to the existing market-based formula. A new progressive pricing structure for low and medium voltages to encourage energy savings may also be put in place. As a general rule, all price adjustments will be implemented while protecting low-income consumers. These price adjustments will be accompanied by: (i) a partial recapitalization of SENELEC, not exceeding CFAF 65 billion in 2007, which will be used to pay taxes and arrears owed to principal suppliers; and (ii) measures to reduce SENELEC's costs. To this end, the authorities have hired a consultant to study potential cost-saving measures. The recommendations of this study will be put into practice beginning in September 2007. The

anti-fraud teams have also been strengthened so as to enhance the rate of collection of invoices. The authorities are also committed to not paying subsidies to SAR, except for (i) the margin of support for refining activities, which will allow SAR to regain financial equilibrium by July 2009, and (ii) the compensation for port entry fee (*droits de porte*) exemptions granted to exempt customers. The government will not make any other transfer to SAR in 2007. Lastly, the government undertakes to maintain the butane gas subsidy at its current level through end-2007. In the medium term, the government is committed to making further reductions in the butane subsidy with a view to eliminating it by end-June 2009. In this context, the government will review the impact of this reduction on the environment and on low-income consumers.

50. To support the reduction in expenditure, the government will contain the wage bill. In particular, the numerous wage increases granted in recent months will be phased in gradually, and the need for further increases before end-2008 will be studied carefully. Any related decisions will be adopted in consultation with IMF staff. The authorities will initiate a study aimed at designing an action plan for the reform of the civil service, with particular emphasis on a performance-based remuneration policy.

51. The government will aim to select investment projects more efficiently and choose the most economically and socially viable (see paragraph 25). This will improve the productivity of spending and create more space for these projects in the medium term.

C. Trends in Revenues

52. Building upon the results achieved in recent years in raising revenues, the government will continue its efforts in this area by broadening the tax base and enhancing the efficiency of tax administration. Accordingly, the government will not grant any new tax exemptions or tax rate cuts beyond those mentioned in the next paragraph. Over the past two years, the government has already reduced the corporate income tax rate from 33 to 25 percent and eliminated the equalization tax. Furthermore, for social reasons, the government recently introduced a mechanism for refunding certain taxes on foodstuffs, with the aim of protecting consumers from price increases. The government recognizes that such subsidies are poorly targeted and create distortions. In order to avoid such problems, the government—in consultation with other WAEMU countries—will study a revision of the taxation of basic foodstuffs. In any case, the government regards these measures as temporary. Finally, the price ceilings set on these foodstuffs will be lifted as rapidly as possible in order to avoid supply difficulties associated with an improper functioning of the market. In the meantime, the government will adjust the price ceilings to ensure that merchants have reasonable margins.

53. The government is also considering exemptions that go beyond those set forth in the investment code, in the context of establishing a special integrated economic zone and for investments exceeding 500 million dollars under a new law on investment projects. The impact of the tax exemptions linked to the zone will be assessed in simulations regarding the relocation of Senegalese firms into this zone (see paragraph 33). As a general rule, the government will consult the IMF prior to any modification of the taxation system.

D. Deficit Financing and Debt Management

54. The reduction of the budget deficit will be accompanied by a rapid elimination of payment delays. These delays dampen economic activity and their clearance is a prerequisite for attaining the government's goals of improving the business climate and strengthening the banking system. For this purpose, any payment arrears based on the WAEMU definition will be eliminated (continuous quantitative assessment criterion). The government will reduce the stock of the budgetary float (*instance de paiement*) to the average level observed in the past (quantitative assessment criterion). Furthermore, the government is committed to reducing the delays between the various stages of the expenditure chain and preventing the emergence of any new payment arrears. In order to enhance its capacity to monitor arrears and delayed payments in the expenditure chain, which hamper the private sector, the government pledges to install the ASTER accounting software at the Treasury and to connect it to the SIGFIP software program of the Ministry of Economy and Finance (MEF) by early 2009. SIGFIP will be extended to the payment stage of the expenditure chain by end-December 2007 (structural assessment criterion). The stock of exceptional expenditure without prior authorization (*avances du Trésor*)—for current and capital expenditure—will be strictly limited to CFAF 30 billion at any time.

55. The government intends to pursue a sound borrowing policy in the medium term in order to preserve debt sustainability. As a general rule—and in line with the recommendations made by the National Economic Policy Committee [*Comité National de Politique Économique* (CNPE)] in the context of the June 2007 debt sustainability analysis—the government will neither contract, nor guarantee, foreign loans on nonconcessional terms. The government will consult with IMF staff well in advance for any exceptions that may possibly be needed, for projects for which concessional financing cannot be obtained and a public private partnership (PPP) cannot be negotiated. In order to ensure compliance with this principle, the clauses requiring prior authorization by the MEF for any foreign loan contracted by a public entity, as set forth in the Prime Minister's Directive of November 24, 2003, will remain in force.

56. Other aspects of debt management will also be strengthened. Debt sustainability analyses for external and public debt will be conducted by the authorities every six months. Moreover, the government will develop a program of regular issuance of government securities, while lengthening their maturity profile, in order to enhance the government's capacity to meet its financing needs in the regional market and provide a flexible response to foreign aid volatility. From this perspective, the government was encouraged by the success of the recent 10-year bond issue on the regional market.

V. Structural Reform Program

A. Fiscal Structural Reforms

57. The acceleration of fiscal structural reforms is essential for improving the productivity of public expenditures and enhancing fiscal transparency, and thereby ensuring the maintenance of international aid flows. The government thus intends to keep these

reforms at the forefront of Senegal's structural reform program. The envisaged measures are based on international best practices and described below.

Implementation of investment projects

58. The government's policy focus on infrastructure—which is conducive to creating a business climate of international standing—will be accompanied by a strengthening of the planning, evaluation, and implementation capacity for public investment projects. This reform will rest on three main pillars and will apply equally to investment projects executed by the government and by other public and parapublic entities. First, the MEF undertakes to provide other ministries with relevant information on the sectoral budget allocations available for the next three years. The allocation of these resources among the various ministries will take into account the overall expenditure envelope compatible with the macroeconomic framework derived in consultation with the IMF, the priorities set forth in the PRSP, and the resources expected from development partners. This information will serve as a basis for preparing the sectoral projects of each ministry, specifically through the medium-term expenditure framework. Second, in order to raise efficiency in the investment program, the authorities will launch a reform aimed at subjecting an increasing number of investment projects to more in-depth analysis, using the most appropriate analytical techniques (in particular, cost-benefit analyses). These analyses will be conducted by specialized sectoral units and will be reviewed by the MEF. The development partners may be called upon to provide assistance. The establishment of these units will focus on four sectors in the first instance, namely education, health, environment, and agriculture. As of June 2008, all new projects in these sectors exceeding CFAF 500 million will undergo such an analysis. Beginning in 2009, all new projects exceeding CFAF 250 million will be subject to this requirement. This mechanism will gradually be rolled out to other sectors.

59. Each sectoral ministry will classify the projects according to their degree of priority based on the ministry's analyses and will ensure that the financing request includes an estimate of the recurrent costs associated with a project. This request will need to be validated by the *Directorate of Economic and Financial Cooperation* (DECF) on the basis of its own analyses. Thirdly, each project ministry will provide: (i) a quarterly status report to the DECF on the implementation of the project following a pre-established format; and (ii) a completion report once the project has been executed. A representative sample of projects will undergo an impact assessment by the MEF.

60. To make it easier to identify the recurrent costs associated with capital expenditures as well as the wages and subsidies contained in the investment budget, the government will study the feasibility of presenting the consolidated investment budget [*Budget consolidé d'investissement (BCI)*] on the basis of an economic classification. Provided that this feasibility is demonstrated, the government agrees to present the 2009 BCI in this format.

61. The government intends to prevent any interruption or slowdown in the execution of investment projects, thereby ensuring that they are implemented as efficiently as possible. To this end, transfers of appropriations from one project to another in the investment budget, or the introduction of new projects into the budget financed with such transfers of appropriations, will be capped at 10 percent of the allotted appropriations. To limit recourse

to such practices, such transfers shall be undertaken by the government only in cases of emergency and solely in order to raise the level of spending in social sectors. Furthermore, to comply with the principles of fiscal transparency, the government will not undertake any off-budget expenditure. This will also prevent circumvention of the selection process carried out by ministries and parliament.

62. The government intends to implement an increasing number of investment projects in the form of public private partnerships (PPPs). To this end, the government intends to strengthen the framework for the implementation of PPPs based on international best practices and the government has requested technical assistance from the IMF in developing this framework. In particular, the authorities wish to apply the following principles:

- The projects will form an integral part of the government's investment strategy. In other words, their economic and financial viability will initially be determined on the basis of cost-benefit analyses (paragraph 25). Subsequently, the implementation of these projects in the form of PPPs will be compared with a traditional project execution to ensure that the PPP option adds value (*Value for Money)*. To conduct these analyses and to monitor projects and evaluate them ex post, the PPP unit to be established within the *Private Sector Support Directorate* at the MEF will be strengthened. Specifically, this unit will be staffed with knowledgeable high-level professionals (including economists, lawyers, and other experts).

- In the medium term, an appropriate legal framework will be set up. The legal framework will require institutional procedures for the settlement of disputes, renegotiation of contracts, and expropriation in order to avoid having to address these issues for each contract. The legal framework will also establish mechanisms for competitive bidding and negotiation for the various projects. It will specify conditions to ensure that the contracts specifically make payment for services conditional upon services rendered so as to ensure quality. A law on *Build-Operate-Transfer* (BOT) contracts is already in place, but will be modified by October 2008 in order to adhere to these principles and apply them to other PPP forms—including in particular concessions. The law will also specify that all PPP contracts should be signed by the responsible sectoral ministers and the MEF. The MEF will base its signing decision on the analysis performed by the PPP unit.

- The institutional mechanism for evaluating and monitoring PPPs will introduce approvals and authorizations by the MEF at the various stages of the decision-making process to ensure that each project is compatible with overall economic policy objectives and the budgetary envelope.

- Finally, fiscal transparency standards will be applied to PPPs. In particular, the government's contingent liabilities under PPP contracts, as evaluated by the PPP unit, as well as the main characteristics of the projects and contracts, will be reported in an annex to the Budget Law. Beginning with the 2008 Budget Law, the government will apply this principle to the airport project and the Port of Dakar project. Furthermore, debt sustainability analyses (DSAs) will take account of these contingent liabilities, beginning with the DSA for the first half of 2008.

63. The government will ensure maximum transparency and efficiency in the execution of the new airport project. To this end, the government has begun publishing the main features of the joint agreement between the government and the project company (AIBD), as well as the various contracts signed between the government, AIBD, the construction firm, the management entity, banks, and the International Air Transport Association (IATA) on the MEF website. These contracts transfer the risks associated with design (architectural errors or noncompliance with quality standards), construction (linked to possible construction cost overruns), and availability (linked to delivery delays) to the construction firm. The government will not authorize any guarantee or undertake any spending, whether direct or indirect, for the benefit of AIBD. Specific exemptions for expenses may be authorized for financing such expenditures as relocating the population, extending water and electricity networks, handling administrative services, moving ASECNA (*Agence pour la Sécurité de la Navigation Aérienne en Afrique*), building some housing units and other outlays associated with the armed services, representing a total of approximately CFAF 25 billion. An itemization for these expenditures was shared with IMF staff. In accordance with the principles described in paragraph 29, the government will present in an annex to the 2008 Budget Law the main features of the project, including the financial flows related to the project as well as any attendant fiscal risks. The MEF will also publish on its website AIBD's annual accounts approved and audited in accordance with international standards prior to the end of July in the year following the end of the fiscal year.

64. As envisaged in the context of the last PRGF program, the airport project has been submitted to Parliament and to the Infrastructure Commission. The revenue from the airport tax—*Redevance de Développement des Infrastructures Aéroportuaires (RDIA)*—is collected by IATA and earmarked for repaying the loan for the construction of the airport in accordance with the procedures described in Decree 2005-1257. As regards the collection and utilization of the RDIA, the government will continue to enforce this decree. In particular, the amounts of RDIA revenue collected by IATA, deposited in the escrow account at end-July 2007, and used to repay the loan for the construction of the airport, were published on the MEF's website in mid-September 2007 (completed prior action). The amounts will be updated on a monthly basis.

65. In September 2007, the government made use of the option to buy back the shares of the private partner in AIBD as allowed by the shareholders' pact (completed prior action). Over time, the government will also record as government revenue the proceeds from the airport concession fee as soon as the airport becomes operational.

66. To attract foreign investors and provide a solution to the scarcity of commercial real estate in Dakar, the government has decided to develop an integrated economic zone in the form of a PPP. In this context, tax exemptions are planned for foreign and local investors. Prior to the signing of the contract with the private developer, the impact of these tax exemptions will be studied through simulations focusing on the relocation of Senegalese firms into this zone. This study will be carried out by end-December 2007 (structural benchmark). In the event that any adverse impact is identified, these exemptions will be revised downward in the implementing decree for the Law on the Integrated Economic Zone. If necessary, compensatory measures will be implemented to ensure that the project is at least revenue neutral. With regard to negotiations on the concession contract, the government

undertakes not to provide any explicit or implicit guarantee or subsidy to support the private partner's investment and financial situation. The government will only make those infrastructure investments in the zone that have a positive impact outside the zone (such as the highway, schools, or hospitals for example). In that event, such investments will be discussed with IMF and World Bank staffs in order to ensure that they are viable and compatible with the macroeconomic framework.

67. The High Authority in charge of managing the zone will include representatives from the fiscal authorities (Customs, Revenue Authority, and Treasury) to draw on their technical expertise and ensure the transparent, efficient, and equitable management of taxes collected in the zone. The activities of the High Authority will also undergo ex post control. Before it is signed, the contract on the zone will be shared with IMF staff on a confidential basis to certify its neutral impact on the government budget, to quantify any other fiscal risks, and to specify mechanisms for the operation and control of the High Authority. The project will be governed by the principles described in paragraph 29. The contract will be submitted to the Infrastructure Council for an opinion.

68. The government wishes to enhance the management flexibility of the agency for investment promotion and major government projects—*Agence pour la Promotion des Investissements et des Grands Travaux de l'État* (APIX)—in order to enhance its capacity for attracting private investment. However, mindful of the need to preserve a certain equity of treatment across public sector entities, to safeguard the interests of the public sector and ensure compliance with the principles of transparency, as well as to prevent any conflict of interest, the government commits to one of the two following options: (i) amend Law 2007-13 to ensure that the APIX SA corporation is fully owned by the State (Article 5). In this event, the waiver (Article 10) in respect of the law on public enterprises (Law 1990–07) will also be abolished to ensure more effective control of the new corporation, including enforcement of the procurement code; (ii) revoke Law 2007-13 and issue a decree to redefine APIX as an agency. For each option—and in order to preserve greater flexibility for this entity—a decree will set out the specific waivers required to ensure the effective functioning of APIX. These modifications will be introduced in consultation with Fund staff and implemented prior to end-December 2007 (structural assessment criterion). The measures to circumscribe the impact of the specific waivers will be codified in a procedures manual prepared jointly with IMF and World Bank staff.

Procurement

69. Limiting recourse to government contracts awarded on a noncompetitive basis is an additional prerequisite for greater efficiency in government expenditure. Mindful of this imperative, the government has enacted a new legal framework for procurement, comprising the government procurement code and the code of government obligations. This framework limits the circumstances under which no-bid contracts may be granted and makes all government entities executing public expenditures, including government agencies, subject to the new rules. It also establishes an independent regulatory authority (*Autorité de Régulation des Marchés Publics* (ARMP)), with participation of the private sector and civil society, which will be responsible for monitoring the enforcement of this legislation, handling complaints by bidders, and conducting ex post audits.

70. In order to reverse the upward trend in noncompetitive procurement contracts over the last three years, the government has decided to take the following steps: first, a circular by the Prime Minister will be issued by end-December 2007 (structural assessment criterion) to implement the new procurement framework as of January 1, 2008. To enforce the new legislation, the new Central Directorate of Public Contracts [*Direction Centrale des Marchés Publics* (DCMP)] responsible for the ex ante control of contracts will be made operational from end-November 2007. For this purpose, a ministerial order pertaining to the organization and functioning of the DCMP has been adopted in September 2007. Staff recruitment will be accelerated and the establishment of procedures will be facilitated through support and technical assistance from donors and the recruitment of a consultant in October 2007. The ARMP will also be set up before end-2007. For this purpose, the decree appointing the members of its Regulatory Council has been signed in September 2007, and the consultant to support the Council will be recruited in October 2007.

71. Furthermore, the government will limit the share of government contracts awarded on a noncompetitive basis to 20 percent of all contracts, including those contracts entered into by agencies (quarterly indicative target). Each quarter, the list of contracts awarded will be published in the interest of greater transparency. All ministries and government entities subject to the new code will be required to submit to the National Commission on Public Contracts—*Commission Nationale des Contrats de l'Administration* (CNCA)—or to the DCMP—their procurement plans for 2008 prior to end-January 2008. In any case, they will not be allowed to execute unplanned government contracts. The ARMP will audit a sample of government contracts and agreements (*conventions*) at the end of the first half of the year. The sample will focus on noncompetitive procurement contracts. Finally, the new regulatory authority will also carry out surveys and audits on a quarterly basis, targeting selected agencies, public enterprises, funds, or other government services covered by the new code. At the end of each fiscal year, the ARMP will commission an independent audit of a random sample of government contracts.

Monitoring risks inherent in public sector operations and fiscal transparency

72. In the medium term, the government intends to broaden the scope of government accounts to include public enterprises, local governments, and social security entities. This development will allow for more effective analysis of fiscal policy and fiscal risks. To this end, the government intends to improve the monitoring of risks inherent in public sector operations, with a view to better managing contingent liabilities of the State, such as those resulting from guarantees provided by the State, guarantee funds, public enterprise borrowing, PPPs, and operations of local governments and social security funds. In this respect, the Government Portfolio Management and Control Unit—*Cellule de Gestion et de Contrôle du Portefeuille de l'État* (CGCPE)—will be strengthened. First, the MEF will sign an order authorizing the CGCPE to request quarterly information on the financial situation of public enterprises. This order will be sent to all public enterprises specifying penalties in case of noncompliance. Furthermore, the CGCPE will represent the MEF's interests on all the boards of directors of public enterprises. In addition, the CGCPE will establish an enterprise monitoring center where financial information will be transmitted and stored electronically. All of these efforts will enable the CGCPE to prepare its biannual report with a time lag of two months. The report should, among other things, include information on the operating

revenues and expenditures of enterprises, their operating deficits, taxes paid to the government, any transfers received from the state, and the level of bank and commercial debt. The 2007 report will be available by end-February 2008. The financial risks associated with public sector operations will be reflected in an annex to the Budget Law, beginning with the 2009 *Loi de Finances*.

73. The government also undertakes to ensure that the 2009 Budget Law incorporates all the financial flows associated with the quasi-fiscal activities of public or private enterprises and public entities, as well as itemized information on all tax exemptions. Subsequent budget laws will gradually incorporate all of the State's contingent liabilities. The preparations for attaining these objectives will begin in 2007. To ensure greater transparency, the government will record in the budget the details of the revenues and expenditures associated with its operations with other public entities (for example, port entry fees for SAR, offsetting of invoices and dividends for the telecommunications company SONATEL).

74. The government undertakes to produce within a timeframe of 45 days preliminary data on budget execution, starting from end-September 2007. This includes the TOFE, the amounts of expenditure committed, validated, ordered for payment, and paid, as well as data on potential arrears and the budgetary float (*instances de paiement*) at the Treasury on the basis of the balances of the Treasury's provisional accounts.

75. The government's end-year Treasury accounts for 2004 will be sent to the Audit Court by end-October 2007 and those for 2005 by end-March 2008 (structural benchmark). Those for 2006 will be sent by end-June 2008. The draft budget review laws (*lois de règlement*) for the years 2002–04 will be filed with the Audit Court before the end of 2007, while those for 2005–06 will be filed by end-2008. The budget for the Audit Court will be gradually increased to enable it to fulfill its supervisory and advisory functions, and to provide it with the infrastructure and human resources required to carry out its tasks.

76. The government intends to limit the number of government agencies and other special government entities and to formulate the legal framework for agencies, funds, and other nongovernmental public entities. A law establishing the conditions under which government agencies may be created, and specifying the objectives, decision-making bodies, and mechanisms for monitoring and controlling their operations and budget execution procedures, is currently being prepared. The law will be submitted to the National Assembly by end-2007.

Management of government expenditure

77. To meet the deadlines for producing the documents for monitoring the implementation of fiscal policy, the government is committed to limiting the opening of budget appropriations to November 30. The complementary fiscal period specified by the law, which ends the administrative phase of the expenditure process (payment orders issued) on December 31 and the accounting phase (payment) at end-February of the following year, will be enforced. These measures will be spelled out in an MEF circular by October 15, 2007.

Tax administration and revenue collection

78. The government is also determined to pursue further improvements to its tax administration, in order to consolidate the progress achieved thus far in revenue collection. For this purpose, the government has installed the national tax management software (SIGTAS) at the main Dakar collection entity which includes, among other things, the Large Enterprises Unit of the Revenue Authority—*Direction Générale des Impôts et des Domaines* (DGID). This software program, currently in its testing phase, permits the integrated management of tax assessment and collection functions, thereby enhancing the efficiency of tax administration. The rollout of this software for the VAT will be completed by end-December 2007. Its application to other taxes will be undertaken during 2008, and deployment will begin at the *Bloc Fiscal* building. These measures will be followed by a rollout to the regions in 2009 and to the counties in 2010. The interface between the three tax revenue-collecting offices will become fully operational by February 2008. These efforts will facilitate closer tracking of tax evasion and a more effective assessment of the performance of each revenue-collecting entity. During 2007, the government will complete the study on the possibility of a transfer of certain direct tax collection responsibilities from the Treasury to the DGID. The recommendations of the study will be taken into account in order to reach a decision on the possible transfer by end-June 2008.

B. Accelerated Growth Strategy and Development of the Private Sector

79. One of the government's main objectives is to enhance the growth potential of the Senegalese economy in order to achieve an annual growth rate of at least 7 percent over the medium term. For this purpose, the government has launched an Accelerated Growth Strategy (AGS, *Stratégie de Croissance Accélérée*) based on two pillars. First, a list of five labor-intensive clusters with strong growth and export potential has been prepared. This list encompasses agriculture and agro-industries, fisheries and fishery industries, tourism/arts and crafts and cultural industries, textiles, and electronic customer support services. Consultations between the public and private sectors and development partners have been used as a basis for preparing action plans to foster the development of these sectors. These action plans are designed to strengthen the sectors' competitive position to facilitate their integration into the global economy. Second, the government has developed an additional pillar within the AGS, which consists of establishing a world-class business environment. For this purpose, an action plan containing cross-cutting measures for overcoming structural obstacles to growth while enhancing the business climate has been developed.

80. The government undertakes to establish a legal and institutional framework prior to end-2007, with the aim of elevating this initiative to the rank of national strategy and integrating it in the State's public policies. In particular, this framework will ensure consistency between the AGS, the PRSP-II, and the various sectoral policies. The government will submit to the National Assembly the framework law (*loi d'orientation*) for the AGS by end-December 2007. On this basis, it will adopt a decree to begin implementing the strategy by end-January 2008 (structural benchmark). The 2008 Budget Law will also make funds available for the implementation of the strategy.

81. One of the goals of the action plan for improving the business climate is to raise Senegal's ranking in the World Bank's *Doing Business* indicators, and in particular, to lift Senegal to the average level of OECD countries over the medium term. Attaining this goal will require sustained commitment and reform efforts on the part of the authorities, given that Senegal presently comes in at 146th place in the rankings of 175 countries. The action plan makes provision for measures aimed at: (i) enhancing the efficiency of government and reducing red tape; (ii) combating corruption and strengthening the judicial system (e.g., by training judges and establishing appropriate courts); (iii) eliminating bottlenecks in infrastructure, particularly in the sectors of transport and electricity; (iv) easing labor market rigidities and pursuing training policies; (v) developing financial channels and facilitating the private sector's access to credit; (vi) modernizing legislation on land ownership to facilitate access to land; and (vii) more generally, strengthening competition in the economy as a whole.

82. Administrative procedures have already been considerably simplified. For example, the Enterprise Creation Bureau within the One-Stop Shop for Administrative Formalities (*Guichet Unique*) has made it possible to reduce the turnaround time for setting up a business from 58 days to 48 hours. Other measures along these lines are planned, including in particular the creation, over the medium term, of regional centers to handle the full range of administrative procedures.

83. The strengthening of the judiciary is also a prerequisite for improving the business climate. The government will act in coordination with donors to adopt measures aimed at rapidly enhancing the judiciary's capacity to oversee the execution of contracts under private law. To ensure the success of these measures, the government will provide increased budgetary allocations for the judicial sector. In this context, a doubling of the budget of the Ministry of Justice between 2004 and 2006 has made it possible to increase the number of judges and clerks by about one-third. The government intends to maintain this pace so as to recruit 50 new judges and 50 clerks in 2008. Specific measures pertaining to the judiciary are also envisaged under the financial sector reform plan.

84. With respect to labor legislation, the AGS envisages the rapid adoption of a large number of decrees to implement the labor code. To this end, the government intends to take stock of the necessary texts by end-October 2007 and to adopt them by the end of the first quarter of 2008. In particular, the decree specifying the conditions for the fixed-term contract [*contrat à durée déterminée (CDD)*] will be adopted by end-March 2008 (structural benchmark). This should allow for greater flexibility in the labor market by clarifying in which sectors fixed-term contracts can be renewed repeatedly.

85. The government intends to strengthen vocational training so as to ensure compatibility between the types of training provided and the needs of businesses. For this purpose, a study will be carried out to establish a national fund for technical education and vocational training (ETFP). The purpose of the fund will be to finance investments in modern equipment for educational institutions and to create new training centers. The fund would be managed as a partnership between the public and private sectors with the aim of involving the private sector more closely in training policy. The study will focus in particular on the financing possibilities, the objective, and the institutional structure of the ETFP, and will be

carried out by end-2007. A study will also be prepared with the aim of harmonizing the nomenclatures for curricula, diplomas, and skill certifications. The recommendations of the study will focus on introducing transparency in the curricula and enhancing the value of degrees and training programs in the eyes of employers. The study will be completed by the first quarter of 2008.

86. In order to improve access to real estate, several laws have been drafted by the MEF. They are designed, among other things, to achieve greater transparency and a higher degree of predictability with respect to access to real estate, and address the deficiencies pointed out by the private sector. These laws have not been adopted, and a commission responsible for land law has been established to identify constraints in this area and make proposals for reform. The commission will produce its report by end-2007. On that basis, land legislation will be submitted to Parliament as soon as the commission's recommendations have been adopted.

87. In the context of the restructuring of the chemical company ICS (*Industries Chimiques du Sénégal*), the government has embarked upon negotiations with the Indian private partner IFFCO with the aim, among other things, of recapitalizing ICS. This recapitalization was agreed upon in the context of a stockholders' agreement signed on July 16, 2007. Under this agreement, IFFCO would contribute CFAF 40 billion, which would give IFFCO a majority stake of 90 percent of the capital compared to 10 percent for the government. With this majority stake, IFFCO will be responsible for ICS's management, which should improve the governance of the enterprise. The financial restructuring also involves ICS's bank, financial, and commercial debt, with a need to renegotiate with the various creditors in order to obtain waivers or a rescheduling compatible with the rehabilitation plan. The bank debt is covered by a government guarantee that will be lifted once ICS is recapitalized.

88. As for trade policy, the government is determined to further liberalize trade and thereby strengthen competition within the economy. On the basis of the ongoing industrial audit of SONACOS (financed by donors), the government will reach a decision by end-December 2007 on the new tax on vegetable oil imports introduced in December 2005 to protect SONACOS and will also decide on the appropriate level for the indicative values for palm oil.

C. Reforms in the Financial Sector

89. The goal of the government and the monetary authorities is to safeguard the proper functioning of the banking system with a view to ensuring its stability and soundness, and enhancing its contribution to the economy. In recent years, the profitability of banks has increased, enabling them to strengthen their equity capital and achieve a sound financial basis. The advent of new banks, to some extent reflecting the attractiveness of the Senegalese financial market, is set to enhance competition in the banking sector and raise the availability of credit for productive sectors.

90. However, the crises facing ICS and the energy sector enterprises have had adverse repercussions on the banking sector in 2006. The government recognizes that heightened

vigilance is needed, and the relevant authorities will ensure proper provisioning, as required by regulations, if the restructuring does not materialize or their financial situation further deteriorates. In general, corrective measures for banks not meeting prudential ratios will be adopted in a timely fashion, and all the recommendations made by the regional Banking Commission will be implemented by the Senegalese authorities.

91. The difficulties which small- and medium-sized enterprises (SMEs) face in gaining access to bank credit in spite of the excess liquidity of banks constitute a true challenge. SME access to bank financing may be enhanced through improved transparency in the management of SMEs and the accuracy of their accounting documents, as well as through judicial reform aimed at better protection for the rights of creditors and seizure of collateral.

92. To facilitate SMEs' access to credit and financing, the authorities have decided to convert the *Fonds de Promotion Économique* (FPE) into the *Banque de Développement des Petites et Moyennes Entreprises* (BDPME). This bank—which has a capital of CFAF 4 billion fully held by the FPE—will be operational in 2008 and will be governed by the same prudential regulation as other banks. The authorities intend to identify a strategic private partner that would take a significant share in the capital of the bank beginning in 2008. The authorities will not intervene in the decisions of the new bank. They will also ensure that the BDPME establishes appropriate risk management and control systems and meets all prudential ratios, including the minimum capital ratio.

93. With respect to the judicial system, a specialized section of the court of Dakar in charge of real estate sales (*Chambre des Criées*) has been set up, pursuant to the recommendations of the Financial Sector Assessment Program (FSAP). The government plans to provide training in economics and finance for the three new judges assigned to this specialized chamber.

94. The government intends to pursue its efforts to modernize the judicial system and adapt it to the needs of the economy, by creating chambers specializing in the settlement of commercial, financial, and banking cases; reducing the time it takes to complete judicial proceedings; and raising the number of judges specialized in economic and financial matters.

95. The government has agreed to provide institutional, financial, and technical support to the *Ordre National des Experts Comptables et Comptables Agréés du Sénégal* (ONECCA—National Association of Chartered Accountants). This support comprises appointing a judge as chief of the disciplinary unit (*chambre de discipline*) and granting a site for the construction of a "house of accounting experts." The procedures under which the disciplinary unit will operate have been approved, but the unit has not yet been activated. ONECCA has also received World Bank assistance to strengthen its operations, in particular with respect to updating of the code of ethics and audit standards.

96. To improve the quality of SMEs' accounting documents as well as their access to credit, the government (DGID in partnership with the BCEAO), in cooperation with ONECCA, will undertake a study by end-March 2008 on possible means to fight against illegal practices in the accounting profession (structural benchmark). The recommendations made in the context of this study will be put into practice shortly afterwards.

97. The authorities will continue to study the possibility of deductibility for the tax on banking transactions [*taxe sur les opérations bancaires (TOB)*]. The findings of two studies focusing on the impact on the cost of credit and interest paid, as prepared by the Association of Banks, are expected to become available by mid-October 2007. On this basis, an additional study on the fiscal impact of this measure will be prepared by end-March 2008.

98. Microfinance institutions (MFIs) continue to play an important role in improving access to financial services for poor households. The government is aware that the microfinance sector is vulnerable to risks associated with the multitude of small MFIs whose financial viability and long-term prospects remain uncertain, and the limits of the existing prudential framework.

99. To address these constraints, the government intends to submit to Parliament the new law on MFIs by March 2008 (structural benchmark). This law is primarily intended to strengthen the existing supervisory framework, enhance the BCEAO's role in supervision, ensure better coordination between the BCEAO and relevant government entities, open up the sector to new entrants, and implement a new accounting framework that more closely reflects the recent changes in the sector. The law will help bring about a consolidation in the microfinance sector over time. Subsequently, the government will expedite the preparation and adoption of decrees to implement the law, which will define the arrangements for enforcing this law. This will include objective and rigorous criteria to grant licenses only to those MFIs that have sufficient resources, and will encourage consolidation of MFIs through networks and mergers. These decrees will be prepared expeditiously to avoid any delay in implementing the provisions of the law.

100. The strengthening of the MEF unit responsible for overseeing the microfinance sector reflects the government's determination to provide effective supervision for the sector. This unit will also benefit from the establishment of an intervention fund in 2008 to carry out inspection missions. Nonetheless, much work remains to be done in order to ensure appropriate and effective supervision in light of the considerable number of MFIs and the importance of modernizing the sector. To address these challenges, the government intends to boost the human and financial resources allocated for the supervision of MFIs and provide appropriate training for inspectors.

VI. Program Monitoring

101. To ensure effective implementation of the program, the government and Fund staff have agreed upon the prior actions, structural assessment criteria, and benchmarks described in Table 1 of the annexed Technical Memorandum of Understanding (TMU). The implementation of the government program in 2007–08 will also be monitored with quantitative assessment criteria for end-December 2007 and end-June 2008, and quantitative indicators for end-September 2007 and end-March 2008 (see Table 2 of the TMU). The completion of the first review of the program is contingent upon fulfillment of the assessment criteria for end-December 2007. The first review is scheduled to take place by end-June 2008 and the second review is scheduled to take place by end-December 2008.

APPENDIX I—ATTACHMENT III

TECHNICAL MEMORANDUM OF UNDERSTANDING

Paris, October 3, 2007

102. This technical memorandum of understanding (TMU) defines the quantitative and structural assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2007 and 2008. The TMU also establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

I. PROGRAM CONDITIONALITY

103. The prior actions, structural assessment criteria, and structural benchmarks established under the program are presented in Table 1. The quantitative assessment criteria for December 31, 2007 and June 30, 2008 and the quantitative indicators for September 30, 2007 and March 31, 2008 are shown in Table 2.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government

104. 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 (e.g., public universities and hospitals).

B. Basic Fiscal Balance (Program Definition)

Definition

105. The basic fiscal balance (program definition) is the difference between the government's budgetary revenue and total expenditure and net lending, excluding externally financed capital expenditure, drawings on on-lent loans, and expenditures funded with HIPC- and MDRI-related resources. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. The assessment criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

Example

106. The floor for the basic balance (program definition) as at December 31, 2007 is minus CFAF 56 billion. This is calculated as the difference between government revenue (CFAF 1082 billion) and total expenditure and net lending (CFAF 1452 billion), excluding externally financed capital expenditure (CFAF 201 billion), drawings on on-lent loans (CFAF 16 billion), and expenditure funded with HIPC- and MDRI-related resources (CFAF 97 billion).

Adjusters

107. The floor for the basic fiscal balance (program definition) for end-2007 will be increased by the amount of the recapitalization of SN La Poste (CFAF 15.5 billion) if this is not carried out in 2007. In that event, the floor in question will be revised downward by CFAF 15.5 billion in 2008, beginning from the quarter in which the recapitalization takes effect.

Reporting requirements

108. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) and its components with a lag of no more than 45 days. The data on revenues and expenditures that are included in the calculation of the basic fiscal balance, and on expenditure financed with HIPC- and MDRI-related resources, will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than two months after the reporting of provisional data.

C. Government Domestic Payments Arrears

Definition

109. In line with the WAEMU definition, domestic payment arrears are government expenditures cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared. The assessment criterion on domestic payment arrears will be monitored on a continuous basis.

Reporting requirements

110. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred. The government will also report to Fund staff on a monthly basis and with a maximum delay of 60 days all committed expenditure (*dépenses engagées*) and all certified expenditure which have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*).

D. Budgetary Float

Definition

111. The budgetary float (*instances de paiement*) is defined as the outstanding stock of government expenditure for which payment orders have been issued but not yet executed. The assessment criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

112. The authorities will report to Fund staff the amount of budgetary float on the same basis as described in paragraph 7 of this TMU.

E. Government External Payment Arrears

Definition

113. External payment arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 14 is applicable here. The assessment criterion on external payment arrears will be monitored on a continuous basis.

Reporting requirements

114. The authorities will report to Fund staff any accumulation in external payment arrears as soon as the due date is passed.

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

Definition

115. This assessment 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 by the government for which funds have not been received. It does not apply to government or government-guaranteed CFAF borrowing from individuals or legal entities that are WAEMU residents. It does not apply either to external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

116. For purposes of this assessment criterion, government is understood to include the government as defined in paragraph 3 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 or controlled independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

117. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered non-concessional, 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.

Reporting requirements

118. 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.

G. Public Sector Contracts Signed by Single Tender

Definition

119. Public sector contracts are administrative contracts, drawn up and entered into by government entities subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered single-bid contracts when the contracting agent signs the contract with the chosen contractor without competitive tender or award. The quarterly indicative target will apply to public sector contracts examined by the *Commission Nationale des Contrats de l'Administration* (CNCA) until December 31, 2007, and to those examined by the *Direction Centrale des Marchés* (DCM) thereafter.

Reporting requirements

120. The government will report quarterly to the Fund staff, with a lag of no more than one month from the end of the observation period, the total value of contracts signed by all ministries and agencies as well as the total value of all single-bid contracts signed by these ministries and agencies.

III. Additional Information for Program Monitoring

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

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

(b) With a maximum lag of 45 days, preliminary data on:

- Tax receipts, tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investment Directorate (DDI) on execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts (*balances de compte*); and
- The provisional balance of the Treasury accounts.

(c) 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.

122. During the program period, the authorities will report to Fund staff provisional data on a monthly basis 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 consolidated treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

123. The government will report to Fund staff:

- The monthly balance sheet of the Central Bank, with a maximum lag of two months;
- The consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a quarterly basis, with a maximum lag of two months;
- The lending and deposit interest rates of commercial banks, on a monthly basis; and
- Prudential supervision and financial soundness indicators for bank and nonbank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* [*Survey of Credit Institutions in Relation to the Prudential Framework*], on a quarterly basis.

124. The government will update monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastuctures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.

TABLE 1

Policy Measures	Date of Implementation
Prior Actions	
1. Officially publish the government's decision on an adjustment of electricity prices in the final quarter as specified by decision of the regulatory commission.	Completed on September 28, 2007
2. Publish on the MEF's website the amount of the airport tax [*redevance de développement des infrastructures aéroportuaires (RDIA)*] collected by IATA, deposited in an escrow account maintained with a commercial bank, and used to repay the loan for the construction of the airport.	Completed on September 19, 2007
3. Complete the buyback by the government of the private investor's equity share of 55 percent in the airport project company (AIBD).	Completed on September 14, 2007
Structural Assessment Criteria	
4. Expand the SIGFIP software to the payment stage of the expenditure chain, in order to allow a comprehensive monitoring of payment arrears.	End-December 2007
5. Amend or revoke Law 2007-13 to modify the status of APIX, as described in paragraph 35.	End-December 2007
6. Issue a Prime Minister's circular letter in order to implement the new legal framework for procurement with effect from January 1, 2008.	End-December 2007
Structural Benchmarks	
7. Complete the study on the impact of tax exemptions resulting from the probable relocation of Senegalese enterprises to the new integrated special economic zone, prior to the signing of the contract with the zone's investor and on the basis of a methodology agreed with Fund staff.	End-December 2007
8. Adopt the institutional framework for implementing and monitoring the Accelerated Growth Strategy and make this strategy operational by means of a decree implementing the framework law.	End-January 2008
9. Undertake a study on possible means to fight against illegal practices in the accounting profession, as described in paragraph 63.	End-March 2008
10. Adopt the decree specifying the conditions for fixed-term contract [*contrat à durée déterminée (CDD)*], clarifying in which sectors fixed-term contracts can be renewed repeatedly.	End-March 2008
11. Submit to Parliament the new law on microfinance institutions, as described in paragraph 66.	End-March 2008
12. Complete the forwarding of the government's end-year Treasury accounts for 2004 and 2005 to the Audit Office.	End-March 2008

Table 2. Senegal: Proposed Quantitative Assessment Criteria and Indicative Targets for 2007–08
(In billions of CFA francs; unless otherwise specified)

	2007		2008	
	Sep. 30 1/	Dec. 31	Mar. 31 1/	Jun. 30
Assessment criteria				
Floor on the basic fiscal balance 2/	-42	-56	-13	-26
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	0	0	0	0
Ceiling on government domestic payment arrears (stock) 3/	0	0	0	0
Ceiling on government external payment arrears (stock) 3/	0	0	0	0
Ceiling on the amount of the float (instances de paiements) at the Treasury	50	34	30	30
Indicative target				
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (in percent)	20	20	20	20

1/ Data for September and March are indicative targets, with the exception of the assessment criteria monitored on a continous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year. The floor will be adjusted upwards in 2007 if the recapitalization of La Poste (for CFAF15.5 bn) does not take place in 2007, and downwards in 2008 from the time it is implemented. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ Monitored on a continuous basis.

4/ This criterion excludes government or government-guaranteed CFAF borrowing from financial institutions within WAEMU. It also excludes external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

INTERNATIONAL MONETARY FUND

SENEGAL

Request for a Three-Year Policy Support Instrument—Informational Annex

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

Approved by Sharmini Coorey and Adnan Mazarei

October 10, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR17.33 million (10.7 percent of quota) at end-August 2007.

- **Relations with the World Bank.** Describes World Bank Group program and portfolio and provides statement of IFC investments.

- **Statistical Issues.** Assesses the quality of statistical data. Although the economic database is comprehensive and generally adequate for surveillance, there are weaknesses in data on national accounts, production, international trade, and social indicators.

Senegal: Relations with the Fund

(As of August 31, 2007)

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	161.80	100.00
Fund holdings of currency	160.18	99.00
Reserve Position	1.63	1.01

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	24.46	100.00
Holdings	0.06	0.25

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
PRGF Arrangements	17.33	10.71

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr 28, 2003	Apr 27, 2006	24.27	24.27
PRGF	Apr 20, 1998	Apr 19, 2002	107.01	96.47
PRGF	Aug 29, 1994	Jan 12, 1998	130.79	130.79

VI. Projected Payments to Fund:

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal				0.35	2.08
Charges/Interest	0.29	1.07	1.07	1.07	1.07
Total	0.29	1.07	1.07	1.42	3.15

VII. Implementation of HIPC Initiative:[1]

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

VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million)[3]	100.32
Of Which: MDRI	94.76
HIPC	5.56

II. Debt Relief by Facility (SDR Million)

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union that includes Senegal. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress made in strengthening the bank's safeguards framework since the 2002 assessment and a number of areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established and follow-up on internal and external audit recommendations has been strengthened.

The monitoring results of the first half of 2007 indicate certain vulnerabilities remaining in internal control systems, and some progress achieved in improving the external audit process (including adopting a multi year audit program), establishing an audit committee, expanding disclosures in the notes to financial statements on financial positions with the Fund by countries, including Senegal, and further strengthening the effectiveness of the internal audit function.

X. Exchange System:

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

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

Aspects of the exchange system are also discussed in the recent report on economic developments and regional policy issues of WAEMU.

XI. Article IV Consultations:

Senegal's last PRGF expired in April 2006 and, therefore, the country is on a 12-month Article IV consultation cycle. The 2006 Article IV consultation was completed by the Executive Board on January 29, 2007 (IMF Country Report No. 07/335). In concluding the Article IV consultation, Executive Directors stressed that renewed efforts at macroeconomic stabilization and deepening of structural reforms would be critical to improve the economy's resistance to shocks, address problems in budgetary discipline and fiscal transparency, and move toward the Millennium Development Goals. In this context, Directors urged speedy implementation of the authorities' action plan for improving the business environment and reducing the cost of doing business, which would be crucial for enhancing growth prospects. More generally, Directors stressed that the authorities should use the opportunity provided by debt relief under the HIPC Initiative and the MDRI to address Senegal's long-standing economic problems and further reduce poverty. Directors welcomed the authorities' intention to lower fiscal deficits over the medium term in order to contain the external current account deficit and prevent debt distress and arrears. They highlighted that reducing energy subsidies should be the main component of this policy, supported by containment of the wage bill relative to GDP and limited increases in capital outlays. Directors also urged prompt elimination of domestic payment arrears.

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

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

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

XIII. Technical Assistance:

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	Public external debt: Upgrading of information systems; techniques of external debt management.
AFRITAC		November 2003 -ongoing	Assistance to strengthening the microfinance sector.
FAD	Staff	February 2004	Fiscal reporting
FAD	Staff	November 2004	PSIA – Poverty and social impact analysis
FAD	Staff	January 2005	ROSC
FAD	Staff	February 2006	Tax administration
STA	Staff	March 2006	Real sector statistics
STA	Staff	March 2006	Government finance statistics

MFD	Staff	September 2006	Bank Supervision and Regulation
AFRITAC		February 2007	Debt Management
AFRITAC		May 2007	Public Finance Statistics

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Alex Segura-Ubiergo since September 22, 2006.

XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS Inter-Governmental Action Group Against Money Laundering (GIABA), based on which the AML/CFT framework will be updated.

XVI. 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: Relations with the World Bank[8]

(As of September 7, 2007)

Partnership in Senegal's development

1. Senegal's second PRSP and Joint IDA-IMF Advisory Note (JSAN) were discussed by the Bank's Executive Directors on January 30, 2007. Building on the first PRSP, the second PRSP covers five years and emphasizes accelerated growth with macroeconomic stability. It sets out the following pillars of the Government's strategy: (i) creation of wealth, with emphasis on the country's Accelerated Growth Strategy, (ii) access to basic social services, (iii) protection of vulnerable groups and risk management, and (iv) good governance and participatory processes.

2. The Government has developed an Accelerated Growth Strategy which is at the center of the first pillar of the new PRSP and is based on two key objectives: (i) improving the overall investment climate of the economy by focusing on a series of cross-cutting issues (including in the areas of justice, taxes, infrastructure, and administrative barriers); and (ii) promoting the development of five cluster sectors with presumed good export growth and job creation potential, including through measures to enhance sectoral competitiveness.

3. The Accelerated Growth Strategy provides the framework for the Bank's new Country Assistance Strategy (FY07-10), which was presented to the Board of Executive Directors on June 20, 2007. The CAS is articulated around three pillars: (i) accelerated growth/wealth creation; (ii) human development/shared growth; and (iii) rural and urban synergies. The Bank supported the Government's efforts under the first PRSP to achieve sustained growth rates, reduce the incidence of poverty and improve access to basic social services.

4. Regarding the division of responsibilities between the Bretton Woods institutions, the IMF 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 IMF's last PRGF-supported program contained structural conditionality in areas such as electricity and groundnut sector reform, which have a direct bearing on macroeconomic stability and growth prospects.

World Bank Lending Portfolio

5. IDA has provided external assistance 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. The Bank is working 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.

6. As of August 15, 2007, the World Bank had approved 143 loans and credits for Senegal totaling about US$3 billion. Past projects have 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$791.7 million equivalent, with an undisbursed amount of about US$473.7 million. The ongoing portfolio is composed of 20 projects in various sectors (rural development; human development, including population, health, nutrition, education, social development, and HIV/AIDS; infrastructure, urban development, energy, water, industry, private sector development, and budget support including to strengthen public financial management).

7. Bank support to the **health** sector has been provided under a series of **Poverty Reduction Support Credits**. PRSC III, which was presented to the Bank's Board on June 20, 2007, has continued to support the Government's efforts, begun under PRSC I and II, to improve health infrastructure and the allocation of human and financial resources toward the regions. An **HIV/AIDS Prevention and Control Project** is assisting the Government in: (i) preventing the spread of HIV/AIDS by reducing transmission among high risk groups; (ii) expanding access to treatment, care, and support for people living with HIV/AIDS in Senegal, to serve as a pilot for the implementation of antiretroviral treatment in sub-Saharan Africa; and (iii) supporting civil society and community initiatives for HIV/AIDS prevention and care.

8. In 1999, the Government adopted a ten-year education program (PDEF) with the ultimate objective of ensuring 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) supports the program in three phases, the second of which was approved on August 30, 2006. Key issues in education include the need to (i) consolidate gains in expanding access while addressing the needs of the under- and un-served areas; (ii) support quality improvements in education through interventions at the school and at local education structures; (iii) improve sector management (in particular, financial and personnel management); and (iv) prepare for smooth deconcentration, and eventual decentralization, to the regional and departmental levels.

9. A second **Nutrition project** is expanding access to, and enhancing nutritional conditions of vulnerable populations, in particular to promote the growth of children under five years of age in poor urban and rural areas.

10. Bank support to the **urban** sector is provided under the **Urban Mobility project**, which aims to improve the safety, efficiency and environmental quality of urban mobility in the Dakar metropolitan area, especially for the urban poor, and to improve road safety in Thiès and Kaolack. Support to urban municipalities is also provided under the **Local Authorities Development Program,** which aims at (i) strengthening the capacity of urban municipalities to improve resource mobilization, and municipal and urban management; and (ii) increasing access to and quality of public infrastructure and services in urban areas.

11. Among the seven development partners involved in the **urban water sector**, the Bank has taken the lead in supporting the **Long-Term Water Sector project**, a large physical investment program that includes institutional reforms. The project has increased access to potable water in the Dakar area and improved overall management of the sector.

12. In terms of **rural development and fisheries,** the Bank provides support through several programs and projects. A second phase of the **Agricultural Services and Producer Organizations Program** aims at increasing access for smallholder producers to agricultural services and innovations, with a view to diversifying and stabilizing their productions and increasing food security. The first phase of the **Agricultural Markets and Agribusiness Development project** is helping increase non-traditional agricultural exports and farm revenues for project-supported producers. The **Participatory Local Development project** is assisting the Government in setting up an effective framework for participatory local development, decentralization, resource mobilization and transfer to local governments and communities, to efficiently deliver services in rural areas and targeted poorest cities. The Integrated Marine and Coastal Resources Management project aims to increase the sustainable management of marine and coastal resources in three pilot areas by communities and the Government.

13. Key issues in the **transport sector** include the need to strengthen institutional capacity, direct private sector involvement in investment and management of the sector, improve the condition of the priority road network and reduce the cost of road maintenance and rehabilitation. Capacity constraints are being addressed with a program of investments, especially in rehabilitating rail links between Senegal and Mali, as well as institutional reforms. The second **Transport Sector project** launched in 1999 with support from several donors, addressed these issues and is closing on June 30, 2007. The Bank is preparing a new project for FY08 to support the construction of a main communication axle between Dakar and Diamniadio in an effort to foster economic development of Senegal's main economic center.

14. Due to global difficulties in the **energy** sector, the two "privatization" efforts conducted over the last five years to bring private sector expertise and private financing into SENELEC were not successful. Bank's assistance to the Government takes into account the lessons learned and the overall international context where private sector interest in investing in Africa is reduced. The Bank is supporting the sector through two projects. The **Electric Services for Rural Areas project** aims to increase the rural population's access to modern energy services and to ensure the environmental and social sustainability of wood fuels in urban and peri-urban areas. The objectives of the **Electricity Efficiency Enhancement project** are to (i) maintain and increase the electricity supply and the reliability of the services; (ii) reduce the costs of electricity services; and (iii) enhance the performance of key energy sector institutions. Support will be strengthened to assist the authorities in implementing their sector strategy by developing a new project in FY08, subject to the availability of additional IDA resources.

15. In terms of **private sector development**, the **Private Investment Promotion project** and the **Private Sector Adjustment** operation assist in creating the conditions to stimulate a

sustained increase in private investment in Senegal through an improved investment climate, greater private participation in economic activities, and policy and sector reform.

16. The **Casamance Emergency Construction Support project** approved in 2004 seeks to normalize social and economic activities in the region and prepare for future development programs in Casamance. Activities include demining, demobilization and reintegration of former combatants and their families, and rebuilding social and economic infrastructure.

17. The Bank also supports Senegal through several regional initiatives, including the **OMVS Felou Hydroelectric project**, the **Senegal River Basin Multi-Purpose project**, the **Africa Emergency Locust project**, and the recently approved **West Africa Agricultural Productivity Program,** which seeks to strengthen agriculture technologies in three participating countries (Ghana, Mali and Senegal), to allow countries to benefit fully from regional cooperation.

18. As of February 28, 2007, the International Finance Corporation's (IFC) portfolio in Senegal totaled about US$47.9 million and included three large investments: (i) the Kounoune Power Company for the development, construction and operation of a diesel power generation plant; (ii) GTI-Dakar Power Plant, the first independent power producer of the country; (iii) and Ciments du Sahel, the country's second cement producer. IFC's activities in Senegal are focused on pro-active project development, especially in financial markets, micro, small and medium enterprises (MSMEs) development, technical assistance, tourism, agribusiness, information and communication technology, mining, infrastructure and housing. Through the Private Enterprise Partnership for Africa, IFC is focusing on investment climate, tourism initiatives, and access to MSMEs.

World Bank-IMF collaboration in specific areas

19. 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) reforms in public finance management; and (iii) structural measures in specific sectors, such as electricity and groundnuts, which have systematic impact on the public finances and on macroeconomic stability.

20. The conditionality for the groundnut and electricity sectors in the most recent 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 IMF 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 August 15, 2007)

Loan/Credit/ Grant	Description	Principal (US$ m.)	Available (US$ m.)	Approval Date	Closing Date
42880	W. Africa Agr. Productivity Prog.	15.0	15.5	29-Mar-07	30-Jun-12
42450	Nutrition Enhancement 2	15.0	10.9	13-Nov-06	14-May-12
42310	Quality Education for All 2 (QEFA)	30.0	25.2	30-Aug-06	31-Oct-10
42240	Local Authorities Dev. Program	80.0	74.0	18-Jul-06	31-Dec-11
42150	OMVS Felou Hydroelectric	25.0	25.8	29-Jun-06	30-Jun-10
41840	SN River Basin Multi-Purpose Water Resource Dev.	30.08	29.9	08-Jun-06	08-Sep-11
41870	Agr.Services and Producer Organ. 2	20.0	16.7	05-Jun-06	31-Dec-10
41660	Participatory Local Dev.	50.05	44.2	27-Apr-06	31-Dec-09
41510	Agr. Markets & Agribusiness Dev.	35.0	34.2	28-Feb-06	31-Dec-11
40600	Electricity Efficiency Enhancement	15.7	12.5	17-May-05	31-Jan-09
40250	Africa Emergency Locust	10.00	6.3	16-Dec-04	30-Jun-09
39980	Integrated Coastal and Marine Resource Mgmt. (GIRMAC)	10.00	6.4	11-Nov-04	1-Jun-10
39810	Electricity Services for Rural Areas	29.90	24.1	9-Sep-04	30-Jun-09
39820	Casamance Emergency Construction Support	20.00	10.3	9-Sep-04	31-May-08
38750	Private Sector Adjustment	45.00	20.6	18-Mar-04	30-Nov-07
37620	Private Investment Promotion	46.00	26.9	20-May-03	31-Dec-08
36010	HIV/AIDS Prevention and Control	30.00	13.3	7-Feb-02	30-Sep-07
34700	Long-Term Water Sector	125.00	31.4	6-Mar-01	30-Jun-09
33540	Urban Mobility Improvement	70.00	17.5	25-May-00	31-Dec-07
31830	Transport Sector 2	90.00	6.7	30-Mar-99	30-Jun-07
	Total	791.7	473.7		

Statement of IFC's Held and Disbursed Portfolio
(As at September 20, 2006)
(In US$ million)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	CDS	10.2	2.26	3.12	0	10.2	2.26	3.12	0
1997/98	GTI Dakar	11.61	1.68	0	9.04	8.66	1.51	0	9.04
2005	Kounoune	21.67	0	0	0	0	0	0	0
2001	SEF Royal Saly	1.48	0	0	0	1.48	0	0	0
	Total Portfolio:	44.89	4.4	3.12	9.04	20.27	4.23	3.12	9.04

BHS = *Banque Habitat du Sénégal* (local housing bank)
CDS = *Ciments du Sahel* (cement factory)
GTI-DAKAR = (power plant)
SEF Royal Saly = Small Enterprise Fund (small tourist hotel)

Senegal: Statistical Issues

21. Overall, Senegal's economic database is comprehensive and adequate for surveillance and program monitoring. However, there are weaknesses in data on national accounts, production, international trade, and social indicators. The authorities are strongly committed to improving the quality and availability of economic, financial and social indicators, partially relying on technical assistance from the Fund and other international organizations. A Report on the Observance of Standards and Codes—Data Module, a Detailed Assessment Using the Data Quality Assessment Framework (DQAF), and a Response by the Authorities were published on the IMF website on December 2, 2002.

22. Senegal has begun the process of regional harmonization of statistical methodologies within the framework of the West African Economic and Monetary Union (WAEMU).

23. Senegal participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on September 10, 2001. Metadata were updated in July 2005. The authorities intend to subscribe to the Standard Data Dissemination System (SDDS) within two to three years. To this end, the May 2006 STA mission helped the authorities develop an action plan to meet SDDS requirements, noting that improvements are needed in several data dimensions on coverage, periodicity, and timelines.

Real sector

24. The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly, impeding the production of national account estimates (e.g., input-output tables and institutional sector accounts are not compiled annually). However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination.

25. A regional advisor in real sector statistics covering the West AFRITAC countries, including Senegal, was posted for one year beginning December 2005, with a first assessment visit in March 2006 covering real sector statistics. Progress reported by the advisor includes: i) completion of a national accounts series for 1980–2004 with 1999 as the base year; ii) dissemination of the 1980–2003 series in hard copy and on the internet; iii) production of accounts by institutional sector; and iv) production of national accounts according to schedule. The authorities plan to start production of quarterly accounts in view of the country's intention to subscribe to the SDDS.

26. The coverage of the harmonized consumer price index, introduced in January 1998, is limited to Dakar. Its 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. The authorities plan to extend the scope of the CPI to cover all 11 regions of the country.

Public finances

27. Government finance statistics (GFS) are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for inclusion in the *Government Finance Statistics Yearbook* were for fiscal year 2001. Higher frequency data are not updated for publication in *IFS*, but the ministry compiles and disseminates reasonably detailed quarterly government financial operations tables (TOFE) in their own publications. However, the authorities do not have a good handle on domestic arrears data and other payment delays because of weaknesses in the treasury computerization system. These weaknesses are being addressed under the proposed program.

28. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the last PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The proposed changes are now being implemented. They will improve the presentation of government financial operations and are a first step toward bringing the TOFE in line with the extended WAEMU TOFE. Other steps will include implementing the WAEMU directives on public finances that are being revised.

29. A regional advisor in government finance statistics conducted several technical assistance missions to Senegal. Her terms of reference include improved fiscal reporting consistent with migration towards the reporting of data consistent with *Government Finance Statistics Manual 2001* and a resumption of reporting for *Government Finance Statistics Yearbook*.

Monetary data

30. Preliminary monetary data for Senegal are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released by BCEAO headquarters. 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 about three to four months. An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*.

31. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003.

32. In August 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA monetary data for June 2006 for all member

countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). These data were reviewed in STA and comments were provided to the authorities. An official response is pending.

Balance of payments data

33. Balance of payments data are compiled by the national agency of the BCEAO. With STA support, several steps have been taken to tackle deficiencies, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modified and simplified related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Although definitive balance of payments data can now be provided with a delay of less than one year, there are significant delays in reporting data to STA (nearly two years lag). Further efforts are required to enhance the quality and coverage of balance of payments data. In particular, the latest published data show inconsistencies between the balance of payments and the international investment position.

Senegal: Table of Common Indicators Required for Surveillance
(As of September 7, 2007)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	Current	Current	D	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]							
Reserve/Base Money	05/2007	8/8/2007	M	M	M	LO, LO, O, O	LO, O, O, LO
Broad Money	05/2007	8/8/2007	M	M	M		
Central Bank Balance Sheet	05/2007	8/8/2007	M	M	M		
Consolidated Balance Sheet of the Banking System	05/2007	8/8/2007					
Interest Rates[2]	07/2007	8/8/2007	M	M	M		
Consumer Price Index	04/2007	8/20/2007	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]						O, LNO, LO, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government							
Stocks of Central Government and Central Government-Guaranteed Debt[5]							
External Current Account Balance	2006	05/2007	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services	2006	05/2007	A	A	A		
GDP/GNP	2006	07/2007	A	V	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt	2006	05/2007	Q	V	A		

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

Statement by the IMF Staff Representative
November 2, 2007

1. This statement reports on developments since the staff report for Senegal's request for a three-year Policy Support Instrument was issued to the Board on October 11, 2007. The thrust of the staff appraisal remains unchanged.

2. **The Consultative Group meeting in Paris in early October was successful.** Based on a preliminary assessment by staff, donor commitments to help finance implementation of the poverty reduction strategy (PRSP-II) and the authorities' Accelerated Growth Strategy (AGS) are broadly consistent with the disbursements projected in the program's macroeconomic framework. Donors reacted positively to the prospect of a PSI.

3. **Macroeconomic developments are encouraging.** In particular, the services sector is performing well, especially in telecommunications and retail and wholesale trade, while ample rainfall in August bodes well for the agricultural season. On the other hand, negotiations with creditors to secure their approval of the restructuring plan for the chemical company ICS—necessary for a return of production to full capacity—have not yet been concluded. End-of-period inflation decelerated to about 6 percent in August and September from its peak of 7 percent in July, although food price increases remain strong.

4. **The program's fiscal objectives for end-2007 are within reach.** Preliminary fiscal data for end-September point toward a sufficiently large margin relative to the end-December fiscal deficit target. Tax collections are in line with expectations, while the authorities have succeeded in slowing both current and capital expenditure.

5. **The government sold the third phone license for US$200 million.** Following their receipt, the funds should facilitate the Treasury's cash flow and lessen the need for additional issuance of government securities in the regional financial market. As the transaction will be recorded as a financing item, the fiscal program targets for end-2007 remain unaffected.

Press Release No.07/246
FOR IMMEDIATE RELEASE
November 2, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-year Policy Support Instrument for Senegal

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Policy Support Instrument (PSI) for Senegal to support the country's economic efforts. The PSI for Senegal is aimed at consolidating macroeconomic stability, increasing the country's growth potential, and reducing poverty. The program focuses on maintaining a sound fiscal policy stance and enhancing fiscal governance and transparency. It also includes measures to develop the private sector and increase the financial sector's contribution to growth. Approval of a PSI for Senegal signifies IMF endorsement of the policies outlined in the program.

The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven. PSI-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 PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is normally reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Following the Executive Board's discussion on Senegal, Mr. Dominique Strauss-Kahn, IMF Managing Director and Chairman, stated:

"Despite the temporary setbacks suffered in the last two years, Senegal has achieved a high degree of macroeconomic stability and robust growth over much of the last decade. The Policy Support Instrument is viewed as the appropriate next step in the Fund's relations with Senegal. Rigorous implementation of the macroeconomic framework and structural reforms, which are part of the authorities' program, should position Senegal well in its efforts to sustain external assistance and make progress in raising growth, alleviating poverty, and achieving the Millennium Development Goals.

“The program focuses on a sound fiscal policy stance and enhancing fiscal governance and transparency. It also includes measures to develop the private sector and raise the contribution of the financial sector to the economy, which are crucial to raising growth and alleviating poverty. In this context, the strong support of Senegal’s development partners for the implementation of the country’s second Poverty Reduction Strategy and the Accelerated Growth Strategy at the recent Consultative Group meeting will be very helpful.

“Spending restraint and sustained domestic revenue mobilization will be essential to attain the fiscal deficit targets envisaged by the authorities over the medium term. In particular, it will be necessary to work expeditiously toward adopting energy sector reform to help reduce the sector’s drag on the public finances. This will allow the authorities to channel spending towards priority social sectors, the judicial system, and the environment. On the revenue side, Senegal’s traditionally strong record of tax collection should be safeguarded, including through a careful design of the planned special economic zone. The authorities’ intention to generally rely on concessional loans will, along with the envisaged smaller fiscal deficits, help contain government debt to sustainable levels. The expeditious elimination of all payment delays by the government is critical because of their adverse impact on the private sector.

“The authorities’ efforts to improve fiscal transparency and governance are indispensable for raising public sector effectiveness and enhancing policy credibility. In particular, the measures taken with respect to the airport project enhance its transparency and limit its budgetary risks. Similarly, the authorities have committed to addressing governance concerns with respect to the special economic zone. The planned fiscal reforms, including an important strengthening of government procurement practices, are also welcome and should help modernize Senegal’s Public Financial Management systems.

“Strong implementation of the program will be essential to address risks, including from slower-than-expected growth, and for Senegal to make progress in achieving sustained growth and poverty reduction,” Mr. Strauss-Kahn said.

Statement by Laurean Rutayisire, Executive Director for Senegal
November 2, 2007

1. We thank staff for a comprehensive report on Senegal's request for a three-year Fund arrangement under the Policy Support Instrument (PSI). The Senegalese authorities have expressed their appreciation of the fruitful and candid dialogue they held with Fund staff during program discussions in Dakar. They have also valued the useful role played by staff during last month's Consultative Group meeting for Senegal at which development partners pledged to provide the country with about four billion US dollars over a three-year period, in support of the authorities' Accelerated Growth Strategy (SCA) and second PRSP. The significant excess of these pledges over the authorities' initial expectations signals the credibility of the authorities' reform agenda in the eyes of the donor community. It is now their hope that that these pledges will be translated into timely and actual disbursements over the commitment period.

RECENT MACROECONOMIC DEVELOPMENTS AND ECONOMIC OUTLOOK

2. During the last Executive Board discussion on Senegal, we provided an account of Senegal's strong macroeconomic performance between 2003 and 2005.[9] We elaborated on how the prudent policies conducted by the authorities during this period helped maintain average real GDP growth at around 6 percent, and keep inflation and overall fiscal deficit (including grants), on average, below 2 percent and 3 percent of GDP, respectively.

3. Primarily on account of a number of adverse developments, including oil price increases and the scale-down in the operations of the Industries Chimiques du Sénégal (ICS), macroeconomic performance weakened in 2006. Real GDP growth and average inflation were slightly higher than 2 percent, and the external current account deficit widened, reaching about 10 percent of GDP. Although the authorities' efforts to strengthen tax administration contributed to raising tax revenues to about 20 percent of GDP in 2006, four percentage points higher than in 2000, overall fiscal deficit (including grants) is estimated to have increased to about 5.8 percent of GDP, largely fueled by energy subsidies and, to a lower extent, increase in the wage bill.

4. In 2007, the economy has shown signs of recovery. Growth is expected to recover from last year's slowdown. With the vast public infrastructure program underway and the expected gradual recovery of ICS following the agreement recently concluded between the authorities and the company's main private stakeholder on a tentative restructuring plan, real GDP is expected to jump back to a 5 percent growth path. The medium-term growth outlook remains positive. In the PRSP's most optimistic scenario, real GDP growth can be significantly stronger in the medium-term provided the additional resources sought by the authorities to finance their latest PRS are mobilized. My authorities are committed to effectively utilizing these resources. In particular, they are determined to put in place by end-January 2008 an institutional framework for the implementation and monitoring of the SCA which aims to help achieve annual growth rate above 7 percent in the medium-term.

5. Although higher international prices of oil and some foodstuffs and adjustments in some energy prices are expected to cause a spike in the general price level this year, my authorities expected that the inflation rate will be contained at around 2 percent over the medium term. Preliminary estimates suggest that the 2007 fiscal deficit will be about 4.7 percent of GDP, slightly higher than targeted earlier this year but significantly lower than the 5.5 percent fiscal deficit estimated in the authorities' draft fiscal program. The fact that this figure compares favorably with the authorities' initial estimate shows that they have successfully implemented some of the cost-saving measures they identified to this resolve, notably by cutting significantly energy subsidies and nonpriority expenditures. Over the medium-term, the authorities are determined to maintain fiscal deficit at about 4 percent of GDP. After a recent widening partly due to the impact of the oil shock and difficulties faced by ICS, one of the country's largest exporting companies, the current account deficit (including official transfers) is expected to narrow down to one-digit level from 2007, and stabilize over the medium-term.

KEY OPPORTUNITIES ALREADY SEIZED UNDER THE PROPOSED PSI

6. The Senegalese authorities have expressed and demonstrated a strong commitment to implement a Fund arrangement under the PSI. Ahead of the Board's consideration of their request for a PSI, all prior actions were implemented and they have taken significant steps towards the implementation of a significant number of other actions agreed with Fund staff in the context of the proposed PSI. Most notably, these include a number of measures aimed at enhancing fiscal transparency and governance and strengthening the procurement framework.

Enhancing fiscal transparency

7. In the context of the discussions under the PSI, the authorities have taken unprecedented steps to improve transparency in the operations conducted by public and parapublic entities. Consistent with their stated commitment to transparency in the conduct of the airport project, the authorities have made available to the public revenue streams associated with the airport tax collection. They have also disclosed publicly the main provisions of all related contracts signed by the government, notably with the project company, AIBD, the construction company, banks, and the International Air Transport Association (IATA).[10] Fiscal risks associated with the airport project have been significantly mitigated through the transfer to the construction company of risks associated with the design, construction, and delays in project execution. Moreover, the government has regained full ownership of the AIBD.

8. In the same vein, the authorities fully disclosed to the staff the details about the implementation of their large investment program which is underway in the run-up to the 2008 Summit of the Organization of the Islamic Conference (OIC). Furthermore, they submitted to the Parliament last September a supplementary budget law that, among other objectives, aim to regularize financial operations associated with the infrastructure projects undertaken in this context.

9. Furthermore, the authorities intend to modify by end-December 2007 the legal status of the Agency for investment promotion and major public projects, APIX, while improving its ability to fulfill in an effective manner its mandate of enhancing the business environment.

Reducing fiscal risks

10. In taking the unpopular decision of announcing a 6 percent upward adjustment in electricity prices effective from November 1, the Senegalese authorities have shown a strong determination to allow electricity prices to better reflect market conditions. In this connection, they have decided that future electricity tariffs adjustments will be made in accordance with the existing market-based formula while protecting vulnerable consumers. Going forward, it is the authorities' intention to better monitor the risks arising from the public sector, notably by strengthening the Government Portfolio Management and Control Unit and gradually taking the necessary steps to fully incorporate fiscal liabilities in future budget laws.

Strengthening the procurement framework

11. Recognizing the need to strengthen the procurement framework, the authorities have recently enacted a new procurement framework, which is another testimony of their commitment to further fiscal transparency. This framework enforces the authorities' strong determination to restrict the use of no-bid contracts in the public sector. As a matter of fact, a governmental seminar held last week provided an opportunity for the Head of State to give firm instructions to all ministries against recourse to such contracts even in cases necessitating the use of emergency procedures. An independent regulatory authority, ARMP, comprising private sector and civil society representatives has been set up, tasked with enforcing the new legal framework. Members of the ARMP regulatory council have been appointed and the consultant recruited to assist the council has begun his assignment since mid-September.

POLICY CHALLENGES TO BE ADDRESSED UNDER THE PSI

12. As there is always room for improvement, the PSI arrangement will be an opportunity for the Fund to provide the Senegalese authorities with candid advice in support of their genuine efforts to strengthen fiscal governance and debt management, promote development of the private and financial sectors, and thus lay the foundation for stronger growth and more significant poverty reduction.

Fiscal Policy and Reforms

13. Despite the vigorous steps taken to reduce budgetary transfers to the electricity company, SENELEC, through the announced increase in electricity tariffs, the authorities recognize that further steps will be needed to address the significant fiscal risks stemming from the energy sector. In this regard, they have embarked on a comprehensive restructuring plan aimed at improving the financial situation of SENELEC and the oil refinery company, SAR, strengthening governance in the sector, and increasing private sector involvement in the energy sector. They

also concur with the need to further scale down butane gas subsidies and they are determined to do so gradually until their complete phase-out.

14. The authorities fully concur with the need to increase public expenditure in priority sectors (education, health, judicial system, and environment) in order to further improve prospects for poverty reduction. It is their view that preliminary data which showed a decline in spending in the education and health sectors and the judicial system in 2006 did not cover public expenditures made in local administrations. Taking into account local administrations, the authorities' latest figures show that spending on the education and health sectors and the judicial system were actually more important than previously estimated. The authorities are determined to achieve their objective of allocating 40 percent of total expenditure to these sectors in the medium-term. In this regard, it is their stated intention to allocate primarily to priority sectors and infrastructure development additional public revenues that could be mobilized on an exceptional basis, notably those expected from the sale of a third mobile phone license and mining concession fees.

Integrated Economic Zone

15. With the aim at promoting private sector development and attracting foreign investment, the authorities plan to create an integrated economic zone in the context of a PPP. Pending the finalization of the contract with the private developer, the authorities intend to assess the revenue impact of tax exemptions to be granted to investors operating in the zone, standing ready to take eventually necessary actions to guarantee that the zone will be revenue-enhancing. In this regard, the authorities will work with staff on ensuring that the project is at least revenue neutral and the equity of the fiscal system is preserved.

Debt management

16. Strengthening debt management is key among the objectives pursued by the authorities. In this regard, it is their intention to take steps to avoid the occurrence of any payment delays, improve the monitoring of budget execution, notably the payment stage, and pursue a prudent borrowing policy. These steps will include installation of an accounting software at the Treasury and its connection to the public financial management system, integration of the payment stage of the expenditure chain into the system, and conduct of regular debt sustainability analyses. In the meantime, a circular has already been issued by the ministry of economy and finance which specifies tighter deadlines for the completion of the administrative and accounting phases of the expenditure process. Furthermore, the authorities will continue to exercise prudent debt management and count on materialization of the pledges recently made by donors at the Consultative Group meeting in Paris.

Public Investment

17. In order to enhance the effectiveness and efficiency of public investment, the authorities are determined to improve its planning, monitoring, evaluation, and implementation. This will involve, *inter alia*, better information sharing between the ministry of economy and finance and

sectoral ministries, increasing use of cost-benefit analyses, and systematic preparation of regular project implementation reports. In the implementation of the authorities' ambitious public investment program, increased recourse to public-private partnerships (PPPs) is foreseen. In this connection, the authorities welcome FAD's decision to provide them with technical assistance in their efforts to enrich the existing framework for the implementation of PPPs with lessons from international experience.

Financial Sector

18. The authorities are committed to strengthening financial sector soundness by enforcing prudential norms. This will include taking necessary actions on a timely basis against banks not in compliance with prudential ratios and implementing the recommendations made by the regional Banking Commission. In order to facilitate SMEs' credit access and in collaboration with a private partner, the authorities intend to put in place a bank dedicated to servicing these entities and identify ways of addressing illegal practices in the accounting profession. They will also continue their efforts to strengthen the judicial system which translated into a doubling of the budget of the Ministry of Justice between 2004 and 2006. Similarly, steps will be taken to improve access to financial services for the poor while strengthening supervision of microfinance institutions.

CONCLUSION

19. In the process of implementing their ambitious economic program, the Senegalese authorities are hopeful that they will benefit from the Fund's useful advice in the context of a PSI. In light of the above, we call on Directors to support the authorities' request for a PSI.