International Monetary Fund

Senegal and the IMF

Press Release:
IMF Executive Board Approves Three-year Policy Support Instrument for Senegal
November 2, 2007

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

October 3, 2007

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

Paris, 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

SENEGAL

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Paris, October 3, 2007

I. INTRODUCTION

1. 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.

2. 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

3. 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.

4. 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.

5. 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.

6. 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.

7. 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

8. 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.

9. 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.

10. 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

11. 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.

12. 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.

13. 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.

14. 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

15. 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.

16. 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.

17. 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.

18. 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

19. 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.

20. 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

21. 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.

22. 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.

23. 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

24. 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

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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

36. 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.

37. 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.

38. 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

39. 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*.

40. 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).

41. 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.

42. 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.

43. 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

44. 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

45. 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

46. 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.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. 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

56. 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.

57. 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.

58. 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.

59. 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.

60. 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.

61. 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.

62. 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.

63. 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.

64. 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.

65. 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.

66. 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.

67. 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

68. 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.

Senegal

Technical Memorandum of Understanding

Paris, October 3, 2007

1. 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

2. 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

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

B. Basic Fiscal Balance (Program Definition)

Definition

4. 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

5. 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

6. 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

7. 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

8. 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

9. 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

10. 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

11. 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

12. 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

13. 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

14. 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.

15. 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.

16. 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

17. 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

18. 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

19. 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

20. 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.

21. 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.

22. 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.

23. 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.