Senegal and the IMF

Press Release:
IMF Completes Second Review Under the Policy Support Instrument for Senegal
December 19, 2011

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

December 2, 2011

LETTER OF INTENT

Dakar, Senegal
December 2, 2011

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431
U.S.A.

Dear Mrs. Lagarde:

1. The Government of Senegal requests completion of the second review of its 2010–2013 macroeconomic program supported by the Policy Support Instrument (PSI). The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010 and in the MEFP of May 19, 2011 pertaining to the first review. The attached MEFP takes stock of program performance at end-June 2011, sets out the macroeconomic objectives for the remainder of 2011 and 2012, and updates the structural reforms being carried out under the program. These policies and structural reforms are consistent with the new Documents of Economic and Social Policies (DPES, 2011–2015) recently discussed with the donor community and validated by Senegal's various social partners.

2. Implementation of the PSI-supported program over the period under review was overall satisfactory. All quantitative and indicative assessment criteria (ACs) for end-June 2011 were met, reflecting prudent management of public expenditure. Considerable progress has also been made with implementation of the structural reforms, despite slight delays in meeting some structural benchmarks.

3. Implementation of the emergency measures under the energy sector restructuring and recovery plan (the Plan TAKKAL), with broad support from Senegal's development partners, has made it possible to reduce considerably power outages. However, the several months' delay in launching some ambitious projects suggests that some of the expenditure originally slated for 2011 will be executed in 2012. In order to protect these expenditure items while ensuring that the debt accumulation path is consistent with the program objectives, the government undertakes to reduce the overall fiscal deficit for 2011 to 6.2 percent of GDP (as compared to the 6.9 percent previously called for in the program) and to maintain the 2012 deficit target unchanged at 5.6 percent of GDP. The budgetary space thus created in 2011 will be used in 2012 if the financing and pace of execution of the expenditure associated with the public investment projects in the electricity and highway sectors so permit. The government undertakes to maintain a prudent expenditure management approach to ensure that these fiscal objectives of the program are met. It will redouble its efforts to recover a substantial proportion of the shortfall in tax receipts in the first six months of 2011. By end-November 2011, the government submitted to Parliament a supplementary budget for 2011 that

reflects these changes. The draft 2012 budget law submitted to Parliament is in line with the objectives set forth above.

4. The government is resolved to reduce the overall fiscal deficit to less than 4 percent of GDP in the medium term and to pursue a prudent borrowing policy in order to preserve public debt sustainability. Concessional resources mobilized from donors and recourse to the regional financial market through competitive bidding will continue to be the main financing sources. However, in view of the current situation of low international interest rates, which makes it more difficult for donors to meet the concessionality requirements, the government would like to avail itself of a moderate increase in the ceiling on borrowing with a grant element of at least 15 percent. The increase in this ceiling to CFAF 44 billion as compared to the CFAF 30 billion set forth in the program will make it possible to completely wrap up the financing of one of the key projects of the Plan TAKKAL. The government also requests modification of two structural benchmarks the implementation of which requires technical assistance, the timing of which has changed. It is therefore proposed that the preparation of a project evaluation guide be rescheduled to end-March 2012 and that the structural benchmark on the preparation of a study on the impact of the VAT reform (end-February 2012) be replaced by the finalization of the new general tax code and its submission to Parliament (end-September 2012). Finally, because of delays in public procurement procedures, it is proposed that the benchmark on the audit and publications of the results concerning the implementation of the extension of the highway be reprogrammed to April 30, 2012. Resources allocated to this project have not yet been used.

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

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

Sincerely yours,

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

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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, December 2, 2011

I. INTRODUCTION

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

2. **In an extremely uncertain external environment and in the face of the challenges raised by certain structural obstacles to growth, the government remains committed to pursuing the program objectives and safeguarding macroeconomic stability.** In such a context, and on the eve of major electoral deadlines for the country, the government intends to adhere to the objectives set in the program and will take the measures necessary to increase the growth potential while preserving fiscal sustainability.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

3. **Macroeconomic developments were somewhat less favorable than anticipated during the first half of 2011.** After a rebound in 2010 thanks to the recovery of the world economy and continued efforts to regularize extrabudgetary commitments, the Senegalese economy experienced a slight slowdown in the first half of 2011 attributable to the persistence of power outages. However, assuming a continuation of the recent improvement in the power sector (see below), GDP is projected to increase by 4 percent in 2011. Inflation rose in the first half of 2011 owing to increases in the world prices of foodstuffs and petroleum; however, reversal of this trend in the second half of the year should make it

[1] The content of this program was set out in the initial MEFP of November 10, 2010, and in the MEFP of May 19, 2011.

possible to end the year with a drop in inflation to 3.6 percent on average for the year as a whole.

4. **Performance for the second review of the PSI was in line with the commitments made under the program.** All of the program's quantitative assessment criteria and indicative targets for end-June 2011 were met (see Table 1). The end-September 2011 targets have been met too, except for the ceiling on contracts signed by single tender in part due to fuel purchases of SENELEC for power generation. The new regulations indeed require that SENELEC buy the fuel for its power plants from SAR based on the applicable price structure; it is therefore proposed to exclude these fuel purchases in the future when calculating whether the ceiling is met. Significant progress was made with implementation of the structural benchmarks in respect of the structural reforms, although there were slight delays for the following reasons: (i) beginning in end-August, the government published on a monthly basis the information requested on the activities of the Special Energy Sector Support Fund (FSE), but details on the investment projects under the electricity sector restructuring plan, their state of progress, their costs and financing terms, and the position of the special account were not published until November 2011 (benchmark for August 31, 2011); (ii) the organization chart of the new entity responsible for managing the public debt was produced on September 20, 2011 and manuals of procedures were finalized November 2011 (benchmark for September 30, 2011); and (iii) finally, owing to some delay in finalizing procurement procedures, it is proposed that the deadline for the audit and publication of results on the implementation of the highway extension be rescheduled for April 30, 2012. The resources allocated to this project have not yet been used.

III. Macroeconomic Policy and Structural Reforms for the Remainder of 2011 and for 2012

5. **Senegal's development strategy will continue to focus on achieving a sustainable increase in economic growth in order to reduce poverty and make Senegal an emerging economy in the medium term.** The final version of the new Economic and Social Policy Paper (DPES) for 2011-2015 has recently been discussed with the technical and financial partners, local elected officials, and representatives of the private sector and civil society. The technical validation was carried out on September 19 and 20, 2011. The paper sets out in detail the policies underlying the economic and social development strategy of Senegal, and incorporates the macroeconomic objectives and reforms envisaged under the PSI-supported program. The DPES contains an action plan that delineates the government's priorities on the basis of three scenarios (historical, best case, and worst case). In order to determine the priority in the implementation of projects and programs, the lines of action of the strategic objectives of the DPES were examined in an assessment framework containing the criteria with direct links to the MDGs, economic growth, the reduction of inequalities, and improved public policy management. A classification is applied in order to assign three priority levels (high, intermediate, and low) to the lines of action around which each scenario is articulated. The key sectors, representing about 87 percent of the action plan, are: (i) energy; (ii) road

infrastructure in the country's interior and regional linkages; (iii) agriculture; and (iv) the social sectors (drinking water and sanitation, education, health, and the environment). Final approval of the paper is projected in the course of November 2011.

A. Macroeconomic context for 2012

6. **Growth is expected to be supported by the significant increase in public investment in 2012** (+25 percent). This will benefit from the ongoing implementation of the works for the toll highway and the Plan TAKKAL, as well as from increased public investment in the social sectors. The restoration of reliable and sufficient electricity supply should also have a positive impact on the other sectors of the economy. These internal underpinnings of growth should largely offset the anticipated slackening of external demand and, more generally, a less promising external environment than anticipated. Overall, real GDP growth is projected at 4.4 percent in 2012 as compared to 4 percent in 2011. Inflation is expected to continue declining and remain well below 3 percent. The current account deficit (including official transfers) is expected to widen owing to the imports associated with investments in the electricity sector. However, the solid performance of the capital and financial operations account is expected to lead to a surplus in the overall balance of payments.

7. **These projections are subject mainly to downside risks.** The main risk is a greater than projected downturn in economic conditions in the advanced economies and a worsening of financial pressures in the euro zone. Such developments would have a negative impact on external demand in Senegal and on financial flows (including the remittances of Senegalese working abroad and, potentially, assistance from donors). Fluctuations in the exchange rate of the euro against the other major currencies could also contribute to external volatility. Domestically, a slowdown in the implementation of the energy sector reforms in the post-election period also constitutes a downside risk.

8. Progress and new challenges in the implementation of the key measures included in the program are set forth in the remainder of this section, grouped in accordance with the four major program objectives.

B. Pursue a prudent public financial and debt policy in order to safeguard macroeconomic stability

9. **Maintaining macroeconomic stability, that is, low inflation and public debt sustainability, is a necessary condition for achieving our growth and development objectives.** The government is thus resolved to reduce the fiscal deficit to less than 4 percent of GDP by 2015 in order to ensure the sustainability of public finances and achieve a basic fiscal balance consistent with the WAEMU convergence criterion.

10. **Improved public expenditure management has made it possible to bring the budgetary float under control and achieve the objective for the overall deficit at end-**

June and end-September 2011 despite the lower than expected level of tax receipts. The new public expenditure management committee has made it possible to adjust the pace of committing public expenditures in light of changes in revenue and other cash flows. The government will redouble its efforts to recover the shortfall in tax receipts for the first six months of 2011, but it is likely that a revenue shortfall will persist to the end of the year. The government therefore undertakes to pursue a prudent approach to public expenditure management in order to ensure that the budgetary targets of the program are achieved in 2011, without the accumulation of payments arrears vis-à-vis the private sector**.**

11. **The budgetary space created under the program to develop priority infrastructure in the energy and transport sectors will be used in 2012.** The several months' delay recorded in launching these ambitious projects suggests that a portion of the expenditure slated for 2011 will be executed in 2012. In order to protect these expenditures while ensuring the path of debt accumulation is in line with program objectives, the government undertakes to reduce its fiscal deficit in 2011 by the amount of the underexecution of investment under Plan TAKKAL and the project of the highway extension to the Blaise Diagne international airport, Thiès, and Mbour. The budgetary savings thus accrued can be put to use in 2012 for these same projects, whose pace of implementation is expected to pick up considerably. Overall, the fiscal deficit for 2011 will be lower than projected (6.2 percent of GDP as compared to the program projection of 6.9 percent), while the deficit for 2012 remains unchanged (at 5.6 percent of GDP). These deficits include FSE operations. The government submitted a supplementary budget law for 2011 reflecting these changes to Parliament by end-November 2011. The budget law for 2012 is consistent with these objectives.

12. **The government will continue to pursue a prudent borrowing policy in order to safeguard the sustainability of the public debt.** Concessional resources mobilized from donors and recourse to domestic/regional financing by competitive bidding will continue to be the main financing sources. The May 2011 issuance of an international bond for US$500 million at 10 years' term made it possible to extend the maturity of our sovereign commercial debt by exchanging and repurchasing the entire US$200 million in 5-year securities issued by the state in late 2009. This operation also enabled us to increase the liquidity, and hence the attractiveness, of Senegal's international sovereign debt thanks to the inclusion of this issue in the EMBIG index. As envisaged in the program, the net resources raised by this issue will be used to finance high-yield projects in the electricity and highway sectors, which will continue to be subject to monthly monitoring and publication. It is not at this stage planned to use the residual envelope of US$200 million for nonconcessional borrowing, which in any event would remain subject to the utilization criteria specified in early MEFPs.

13. **In a context of low international interest rates, which makes it more difficult for donors to meet the concessionality requirements, the government would like to avail itself of a moderate increase in the ceiling on borrowing with a grant element of**

between 15 percent and 35 percent. This new borrowing envelope (in the amount of CFAF 44 billion as compared to the CFAF 30 billion currently set forth in the program) is intended to finance the purchase of a power barge under Plan TAKKAL, using resources from the Islamic Development Bank.

14. **The capacity of the Administration to manage the public debt will be strengthened.** On the basis of the organization chart approved in September, in December the government will draw up the plan for transferring to the new debt directorate the personnel currently working in the two units now in charge of the domestic debt and the external debt, respectively. The new directorate, under the auspices of the Directorate-General of Government Accounting and the Treasury (DGCPT), will become operational beginning January 15 (structural benchmark). The unit currently in charge of the domestic debt will prepare the timetable for 2012 issuances on the regional market in line with the cash flow requirements derived from the fiscal objectives of the program for 2012. By end-January 2012, the new debt directorate will organize an information session for banks and other institutional investors in order to present Senegal's issuance schedule for 2012. The arrangements for reorganizing the remaining part of the former debt and investment directorate will be finalized by end-December based on economic efficiency considerations. This reorganized directorate will become operational with effect from March 1, 2012.

C. Raise revenue to create more fiscal space for financing priority spending

15. **The government remains resolved to build the state's capacity to finance budgetary expenditure using its own resources.** In this regard, the revenue shortfalls of 2010 and 2011 underscore the urgency of implementing reforms in the tax system and in the tax and customs administrations. An ambitious reform of the tax system will be prepared in 2012 and enter into force in 2013 (see below). In the shorter term, the government has decided to raise new resources through new tax measures. A tax on telephone calls from abroad was introduced in October 2011. In addition to combating fraud in the telecommunications sector, the objective of introducing this tax is to gain greater control over international telephone traffic to Senegal in order to optimize its contribution to public revenue. The Telecommunications and Postal Regulatory Authority is responsible for the assessment and collection of the tax, whose proceeds go to the budget and could increase fiscal revenue by CFAF 50 billion. In addition, in the 2012 budget law the government introduced a 5 percent levy on mining and quarrying products as well as on sales of cement. This measure seeks not only to bring in additional tax receipts (estimated at CFAF 10 billion for 2012), but to ensure that, for equity reasons, the extractive activities sector makes a contribution, pending the possibility of renegotiating the mining conventions, which lead to sizable tax expenditures. The rules on assessment, collection, and disputes for the value-added tax shall apply to this levy.

16. **Work on the reform of the General Tax Code, which should enter into force with the 2013, is proceeding on schedule.** Consultations have been conducted with the

representatives of businesses and employees. Studies are under way with a view to improving the operation of the VAT, reviewing the taxation of personal incomes, and revising the taxation of key sectors, such as financial services and telecommunications. The reforms are aimed at introducing a modern tax system, in line with international best practices, that will make it possible to collect the revenue needed to achieve our economic and social development objectives while reducing distortions and economic inefficiencies to the greatest extent possible. The new code will propose a tax system with improved incentives, more equitably shared across a broader base, simpler and more transparent for the taxpayer. One important component of this reform, recently reaffirmed by the President of the Republic, will be to reduce exemptions that have caused erosion of the tax base and led to situations that are sometimes difficult to justify. The stages contemplated for the finalization of the tax reform are described below. While the ultimate objective and its deadline remain unchanged, the timing of the various stages has been modified slightly to reflect better the progress made on various fronts and the timing of the technical assistance we will be receiving from the IMF and other partners:

(i) Preparation of a proposal for new legislation governing the VAT (*end-February 2012*);

(ii) Preparation of a proposal for the reform of the personal income tax (*end-April 2012*);

(iii) Definition of specific measures that will serve as the basis for revised taxation of the telecommunications sector and financial sector (*end-May 2012*);

(iv) Preparation of a VAT reform proposal aimed at increasing its base and improving the refund system (*end-July 2012*);

(v) Identification of the tax expenditures that will be repealed and establishment of a timetable for their elimination. Exemptions from the regular taxation system that the government will decide to retain will be incorporated into the code only after an assessment of their impact in terms of achieving their original objectives (*end-July 2012*). The next report on tax expenditures will also be submitted to Parliament at the same time as the draft budget law for 2013;

(vi) Finalization of the new General Tax Code and its submission to Parliament (*end-September 2012, new structural benchmark*).

17. **Implementation of the plan to modernize the tax administration is ongoing.** The program under way to reform the Directorate-General of Taxes and Government Property (DGID) targets a staff reorganization, better taxpayer classification, introduction of a more effective mechanism for taxing small taxpayers, improved collection, and the restructuring of the regional units. The project to create a Center for Mid-Sized Enterprises (CME) is nearing finalization, and a pilot CME in the Dakar region, covering a thousand businesses with turnover of CFAF 200 million to CFAF 1 billion, will be operational as of January 1, 2012.

The CME will help improve the monitoring of this group of taxpayers, from which tax contributions have been so far extremely low. The government will also enhance the efficiency of the taxpayer registration procedure. As part of the streamlining of the DGID's external units, a large enterprise directorate and interregional operational directorates located in Dakar and selected larger localities throughout the country will be created by end-2012.

18. **Following the effective transfer of government tax collection to the DGID, the government will take measures to improve its efficiency.** Collection problems associated with the creation of the agencies have been noted. Accordingly, the collection of VAT prepayments via these agencies will be eliminated (end-February 2012). Furthermore, the collection enforcement mechanism will be strengthened in the legislation (end-February 2012). These measures are aimed at bringing the tax collection system into line with best practices. For similar reasons, the DGID will be called upon to modernize the tax filing and payment procedures by introducing remote procedures (remote filing and remote payment). Beyond modernization itself, the objective is to simplify procedures for taxpayers. A classification of tax arrears by amount, type, duration, and taxpayer will be completed by end-January 2012 and used to devise a collection strategy (end-April 2012).

19. **In the course of 2012, the DGD intends to continue the reforms delineated in its Strategic Plan for 2011–2013, focused primarily on modernization of the unit, strengthening the partnership with business, and improving customs clearance and surveillance on the ground.** The following measures are among those to be implemented:

(i) Computerize administrative and customs procedures by broadening the coverage of the GAINDE 2010 system to the entire national territory and interconnecting it with other IT systems (Treasury and Taxes);

(ii) Simplify customs clearance procedures and reform economic regimes with a view to supporting business competitiveness;

(iii) Develop an active information and targeting policy by operationalizing the National Customs Information Catalogue (FNID) and the customs-specific risk analysis system;

(iv) Make the business and association registration number system (NINEA) mandatory for customs operations with effect from January 1, 2012 (new structural benchmark).

D. Strengthen public financial management and governance

20. **Public financial management has been improved in recent years, but challenges remain.** This assessment is shared by the 2011 PEFA. On this basis, the government is now updating the fiscal and financing reform plan (PRBF), implementation of which began in 2009. The reform timetable will also be driven by the objectives for implementing the new WAEMU directives on government finance. In early-July 2011, Parliament approved the

new organic law which transposes into domestic law the WAEMU directive of June 2009 on budget laws. The decrees transposing the other directives on: (i) the General Regulation on Government Accounting (RGCP); (ii) the State Budget Nomenclature (NBE); (iii) the Government Chart of Accounts (PCE); and (iv) the Table of Government Financial Operations (TOFE) will be approved by the authorities by end-December 2011, in accordance with the timetable established by WAEMU.

21. **Progress has been made with respect to the planning and execution of operating expenditures and the government will intensify its efforts in this area.**

(i) Implementation of the action plan on recurrent expenditures has made it possible to conduct an exhaustive inventory of the central government's telephone lines and water subscription arrangements. A module has been developed by SIGFIP for the computerized management of such recurrent expenditures (water, electricity, telephone). For 2012, efforts will be focused on broadening the coverage of the electricity subscription plans and implementing the SIGFIP module on recurrent expenditure, together with harmonized management of the central administration's file (subscriptions, disconnections, etc.).

(ii) Management of contractual personnel in education: for fiscal 2011, the proper coverage of needs has been ensured for new recruits. The process of integration into the civil service has thus been accelerated. Most measures recommended by the report of the Inspectorate-General of Finance are expected to be implemented in the months ahead with a view to improving the estimation of costs and their control in this area. They will call for greater collaboration between the ministries responsible for education, the civil service, and finance in order to ensure better monitoring of the newly recruited contractual employees, for example through the centralization of the information to improve oversight of staffing levels.

(iii) With respect to scholarships, bringing them into the banking system beginning in April 2011 has made it possible to ensure timely payment through well established reconciliation procedures at both the administrative and banking levels, and the necessary transparency in the management of payments, as well as in the number of scholarship recipients. The pursuit of more transparent management of scholarships will continue in fiscal 2012.

22. **The preparation of annual public accounts and the submission of draft budget execution laws to Parliament have been speeded up.** Between 2010 and 2011, Parliament approved the budget execution laws for 1999 to 2005. In 2011, the draft budget execution laws for 2006 and 2007 were forwarded to Parliament. The draft budget execution law for 2008 has been forwarded to the Secretariat-General of the Government with a view to its submission to Parliament. The draft budget execution law for 2009 has already been discussed in reconciliation sessions between the Ministry of Economy and Finance and the

Audit Court, while the 2010 version is under review. The two drafts are pending final validation by the Audit Court. Upon conclusion of the review procedure in the Audit Court, final approval will make it possible to initiate the procedure for passage of these laws in Parliament. This should make it possible to return in 2013 to a budget cycle consistent with the regulations in force, calling for submission of the budget execution law for year N-1 to Parliament at the same time as the draft budget law for year N+1.

23. **The improvement in the process of planning, evaluation, and selection of public investment projects has experienced some delay.** An initial version of the project preparation guide has been finalized, but is expected to be improved on the basis of the feedback from the users. Preparation of the project evaluation guide on the basis of modern cost-benefit techniques will be carried out with technical assistance from the World Bank as part of the new operation for supporting public finance management reforms approved in September. The delay in implementing this operation suggests that the date initially envisaged for the finalization of the guide should be pushed back to end-March 2012. Moreover, the new projects are now subject to review by the technical committees. This process makes it possible to improve both the presentation and content (and hence the quality) of the projects.

24. **The Single Treasury Account (STA) will be improved.** The STA is a system for the streamlined management of public cash flow based on directing the maximum possible amount of public resources into Treasury channels and avoiding the holding of idle public funds in the banks. To this end, the census of accounts with the BCEAO and with commercial banks of the central government, its agencies, public establishments and other public entities financed by the state or by parafiscal levies will be updated in cooperation with the BCEAO and the public accountants of the agencies and public entities by end-April 2012. As at the same date, all the agencies and public entities will have an account with the Treasury. With effect from end-May 2012, a monthly statement of public entities' bank accounts with commercial banks and the BCEAO will be produced for the entities covered by the TOFE; a quarterly statement will be produced for the other public entities. By end-June 2012, a study will be conducted with a view to streamlining the opening of bank accounts by agencies, public entities, and other legal entities under public law, and to assess the impact of closing the accounts of public entities without their own legal standing on the commercial banks. Based on this study, a list of the accounts with commercial banks, whose maintenance beyond December 31, 2012 on an exceptional basis is allowed, will be drawn up and forwarded to the IMF by end-August 2012. The terms for opening, operating, and closing the accounts of agencies, public establishments, funds, and other similar entities or entities associated with the Treasury will be established by an order of the Minister of Finance by end-August 2012. The list of accounts maintained on an exceptional basis will be drawn up by the Minister of Economy and Finance. As appropriate, closure of the accounts of public bodies included in the study will be carried out gradually between September 1 and December 31, 2012.

25. **An action plan will be launched in 2012 to increase the transparency of managing the budgets of public entities with financial autonomy and to improve budget risk assessments.** The creation of public entities such as public establishments, autonomous public agencies, national companies and companies with a majority public participation was often motivated in the past by the desire to speed up the implementation of certain expenditures not permitted under the traditional procedures for public financial management. Sometimes, the creation of agencies might also have been required by the technical and financial partners in order to address their own fiduciary constraints. However, the creation of such entities is less justified at present, with the increased effectiveness of the public spending process; moreover, it reduces transparency and budget integrity and exposes the state to risks, as it may not always be able to monitor the possible indebtedness of such entities and the financial risks they are incurring. For these reasons, a legal framework on the creation, management, control, and monitoring of executing agencies was adopted in 2009. The commission for evaluating and inventorying the activities of the agencies, called for by the 2009 law, will be made operational: its members will be named and official installation will be completed in November 2011. A comprehensive survey of the agencies and their missions will be conducted by the commission and finalized by end-January 2012. In tandem with the above, the administration will conduct a similar inventory of the other budget units of the state that receive budgetary transfers or some form of indirect public support, such as earmarked taxes (new structural benchmark). These surveys will also include for each entity, by end-April 2012, a breakdown of its resources (by origin and nature) and expenditures, as well as staffing figures. The budgets or account forecasts for these entities from now on will be submitted to technical and financial supervisory authorities, in line with the provisions of the decree in force on the financial and accounting regime of public establishments, agencies, and other similar public entities. The annexes of the Budget Law from 2013 on will include aggregated information on their current budgets and individual information on the budget forecasts for the entities with the revenue exceeding CFA 5 billion. The installation of public accountants in the agencies will be continued.

E. Private sector development

a. Energy sector

26. **The implementation of the emergency measures under Plan TAKKAL, the energy sector restructuring and recovery plan that has benefited from broad support from the technical and financial partners, has made it possible to reduce considerably power outages.** The implementation of these measures effectively began with the passage of the supplementary budget in early July 2011 and made it possible to fill the gap in electricity production and ensure a regular and sufficient supply of fuel to SENELEC, the national electricity company. The financial resources mobilized within the framework of Plan TAKKAL and the FSE made it possible to secure investments, rapidly increase production capacities, and secure fuel supplies. In this connection, Plan TAKKAL made it possible to deploy rented temporary production capacity of 150MW with assistance from APIX SA and

to reduce the cost of fuel purchases. Indeed, the Minister of Energy introduced the principle of systematic competitive bidding for fuel purchases through the SAR and the requirement that SENELEC make purchases on the national market in accordance with the price structure so as not to exceed the ceilings set for the domestic prices of hydrocarbons, and to comply with the new specifications for petroleum products established in May 2011. These various measures contributed to a significant reduction in the cost of fuel supplies (about CFAF 1 billion a month). The FSE intervention makes it possible for SENELEC to have a reserve of at least 10 days of stock at each of its main power plants and to have an overall stock of at least 35 days in the country. The FSE also made it possible to secure the refinancing by SENELEC of its fuel suppliers' debts amounting to CFAF 34 billion. The combined effect of these emergency measures led to a considerable reduction in power outages since end-September. At this stage, the occasional and localized power outages are no longer attributable to production shortfalls, but rather to breakdowns resulting from the obsolescence of the transport and distribution grid. These problems with the grid are expected to be reduced by the emergency works now in progress.

27. **The other components of Plan TAKKAL are also being implemented—**enhanced production capacities, demand management, modernization of the transport/distribution grid, and the development of capacities for the sustainable recovery of the sector. The purchase of production units that are less costly than rentals has begun and should start bearing fruit in 2012 with, in particular, the expansion of the Bel Air and Kahone power plants (68 MW), the expansion of the Boutoute-Ziguinchor (10 MW) and Tambacounda (6 MW) power plants, the purchase of mobile containerized power stations - PPS (70 MW), the purchase of two (2) power barges (70 MW each), and the construction of the Taiba Ndiaye power plant (70 MW) in order to minimize and optimize the use of public funds. In the longer term, the construction of coal-fired plants and the development of the hydroelectric potential will permit a sustainable recovery in the sector through a substantial reduction in the cost per kWh, this rendering SENELEC profit-making. The rehabilitation of the existing power plants, as well as the program to upgrade the electricity transport and distribution grids, will benefit from sizable investments beginning in 2012, financed largely by the technical and financial partners and through the implementation of public-private partnerships with groups of international standing. Demand management measures are being implemented, namely the replacement of incandescent bulbs by low consumption lamps, the deployment of prepaid meters, erasures, remote meter reading, and a public awareness campaign on energy savings.

28. **The operational and financial restructuring of SENELEC will be a priority undertaking in 2012.** This restructuring should make it possible not only to improve service quality, but also to achieve greater efficiency, measured for example by a substantial reduction in distribution losses and operating costs and an improvement in the collection of amounts owed. These measures should go hand in hand with a rehabilitation of the financial position of SENELEC, which will entail, among other things, clearing SENELEC's debts to the state and the recovery of SENELEC's claims on subnational governments and public establishments. A comprehensive plan for the operational and financial restructuring of

SENELEC is being prepared, and will be finalized by end-November 2011 and implemented at end-February 2012. These measures are a necessary condition for the restoration of financial sustainability in the electricity sector. They should be supplemented by strict application of the new tariff regulation mechanism. The tariff gap, that is, the difference between current revenues and the revenues required under existing tariff conditions to cover all of SENELEC's costs, is estimated at nearly CFAF 100 billion in 2011 based on the new formula. It will be offset in 2011 by fuel purchases by the FSE and not by a tariff increase. The tariff gap could be reduced in 2012 but will probably remain quite substantial in the absence of a sharp drop in international oil prices. The question of subsidizing electricity consumers, and hence of the tariff level, will consequently be the subject of in-depth review in the months ahead, and an action plan will be drawn up by end-April 2012 (structural benchmark). It will take account of the financial restructuring and cost reduction measures at SENELEC, which are, along with the sustained improvement anticipated in the quality of electrical service, prerequisites for any tariff adjustment.

b. Financial sector

29. **The financial sector reforms envisaged in the program are ongoing.**

(i) With respect to the introduction of a regulatory framework for establishing private credit registries, a draft law has been prepared by an expert group and will be forwarded to the Secretary-General of the Government by December 2011 for discussion in the Council of Ministers.

(ii) The draft law on financial leasing could be adopted during the current session of Parliament. Ultimately, the draft framework law to be proposed by the BCEAO and validated by the WAEMU Council of Ministers could be transposed into our domestic legal system to replace the national law.

(iii) Finally, with regard to the restructuring of Poste Finance, the process of selecting the consulting firm to conduct the study has only just now been wound up. The results of the study are expected in February 2012, and will facilitate the government's selection of the option to pursue (creation of a lending institution or its integration into the postal service) and the preparation of an action plan and timetable.

30. **The BCEAO National Directorate has fine-tuned the stress tests of Senegalese banks in order to take better into account specific risks.** In this context, an analysis of the macrofinancial risks and stress tests of the Senegalese banking system carried out on the basis of the monthly statements of the banks as at end-March 2011 shows that the liquidity and capital equity of the banks, recently increased by raising the minimum capital amount, remain adequate for withstanding any possible deterioration in the banking portfolio. The main risks continue to relate to concentration by sector, in particular for sectors dependent on changes in international market prices, and to a lesser extent on the contagion effects of economic or political crises affecting the parent companies of some banks with foreign

capital. Efforts to diversify the banking portfolio should be continued by credit institutions. In addition, the establishment of the deposit guarantee fund in WAEMU should be accelerated.

c. Other factors improving the business climate and governance

31. **The structural reforms to improve the business climate are progressing on schedule.** The computerization of the Commercial and Property Registry of the criminal and commercial chains and the interconnection of jurisdictions is under way and almost completed for some areas (for the criminal chain, for example). Seminars have been organized on the management of commercial disputes. They facilitated the harmonization of practices and made it possible to impart greater transparency and visibility to such management. Measures are envisaged for reducing the bottlenecks in investment operations as regards building permits (for example, by generalizing the placement of one-stop shops in municipalities to process building permit applications) or ownership transfers (for example, by eliminating the need of authorization of transactions by the Minister of Finance for the amounts less than CFAF 10 million).

32. **The government reiterates its commitment to improve the transparency of the economic and financial operations of the state and to promote good governance in the administration:**

1. The proposals for amending the law on the Court of Audit in order to improve its functionality and effectiveness in auditing the government's accounts were approved by the Council of Ministers and the draft law containing the amendments will be submitted to Parliament in December 2011.

2. CENTIF has published on its website the end-June statistics on cases of money laundering and the financing of terrorism, showing the number of suspicious cases received, the number of cases submitted to the Public Prosecutor's Office, the number of judicial prosecutions, and the number of convictions. This reporting will be continued on a semiannual basis.

3. The process of improving transparency in land transactions and publishing sales of government property to private parties is moving forward gradually. The first stages of computerizing real estate management, namely the scanning and restoration of land registries begun in 2008, is expected to be completed in 2013. For 2012, the main objective is to ensure the availability, accessibility, and reliability of the land data using more transparent procedures. The introduction of a new property information system will be based on: (a) consolidation of the modernization of the cadaster; (b) the creation of a computerized land registry; and (c) the computerization of government domain management including, on a priority basis, the inventory of government properties for preparation of the Summary Table of Government Properties. Beginning in 2012, the Minister of Economy and Finance will publish at

the end of each year, on a publicly available website, all the information on the number of cases involving final sales of land from the government's private domain, indicating the surface area of the land sold, its geographic location, and the corresponding revenue received. Beginning in January 2012, all government land receipts will be tracked in SIGTAS in the same manner as all other tax receipts collected by the DGID.

III. Program Monitoring

33. **In view of the foregoing, a number of changes would appear to be desirable in the program monitoring arrangements:** (i) There should be an adjuster to change the level of the fiscal deficit in light of the level of investment expenditures associated with extending the highway and with Plan TAKKAL. This adjuster reflects the priority accorded to those expenditures and the possibility of increasing them should the pace of execution and the availability of financing so permit. Conversely, the deficit will be reduced in the event of underexecution of such expenditures. (ii) Criteria relating to the debt. The ceiling on borrowing with a grant element of 15 percent to 35 percent has not been used to date and would be available for use over the program period, with an increase in the ceiling from CFAF 30 billion to CFAF 44 billion. The monitoring arrangements pertaining to the use of the funds and the progress made with the project remain as set forth in the memorandum of May 19, 2011.

34. **Quantitative assessment criteria are proposed for end-June 2012 and end-December 2012** (See Table 1 of this MEFP)**.** The same holds true for the structural benchmarks indicated in Table 2 of the MEFP. The third review of the PSI-supported program should normally be completed by end-June 2012, the fourth review by end-December 2012, and the fifth review by end-June 2013.

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

	December 31, 2010			March 31, 2011			June 30, 2011			September 30, 2011			December 31, 2011
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Prel.	Prel. status	Rev. prog.
Assessment criteria													
Floor on the basic fiscal balance 2/	-119	-133	not met	*-24*	*-36*	not met	…	…	…	…	…	…	…
Floor on the overall fiscal balance 3/	…	…	…	…	…	…	-237	-155	met	*-355*	*-318*	*met*	-427
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 4/	0	0	met	500	0	met	500	300	met	500	*300*	*met*	500
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	met	0	0	met	0	0	met	*0*	*0*	*met*	0
Ceiling on government external payment arrears (stock) 4/	0	0	met	0	0	met	0	0	met	*0*	*0*	*met*	0
Ceiling on the amount of the budgetary float	50	48	met	*50*	*24*	met	50	45	met	50	*40*	*met*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 4/	0	0	met	30	0	met	30	0	met	30	*0*	*met*	44
Indicative targets													
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*6*	*met*	*20*	*6*	met	*20*	*6*	*met*	*20*	*47*	*not met*	*20*
Floor on social expenditures (percent of total spending)	*35*	*41*	*met*	…	…	…	*35*	*41*	met	…	…	…	*35*
Maximum upward adjustment of the overal deficit ceiling due to													
Shortfall in program grants relative to program projections	…	…	…	…	…	…	*15*	…	…	*15*	…	…	*15*
Excess in concessional loans relative to program projections	…	…	…	…	…	…	*70*	…	…	*70*	…	…	*50*
Excess in energy secor and autoroute investment relative to program projections	…	…	…	…	…	…	…	…	…	…	…	…	*50*
Memorandum items:													
Program grants	…	…	…	…	…	…	19	35	…	28	37	…	37
Concessional loans	…	…	…	…	…	…	114	88	…	170	…	…	210
Investment in the energy sector and the autoroute 5/	…	…	…	…	…	…	…	…	…	…	…	…	66

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

2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

5/ Investment in the autoroute plus investment under the plan Takkal financed form internal and external concessional resources.

Table 2 MEFP. Quantitative Assessment Criteria and Indicative Targets for 2011-12 1/
(CFAF billions, unless otherwise specified)

	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	Prog.	Prog.	Prog.	Prog.	Prog.
Assessment criteria					
Floor on the overall fiscal balance 2/ 3/	-427	*-102*	-205	*-307*	-410
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 4/	500	500	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	*0*	0	*0*	0
Ceiling on the amount of the budgetary float	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 4/	44	44	44	44	44
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	*35*	*…*	*35*	*…*	*35*
Maximum upward adjustment of the overal deficit ceiling due to					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
Excess in energy secor and autoroute investment relative to program projections	50	50	50	50	50
Memorandum items:					
Program grants	37	9	19	28	32
Concessional loans	210	52	105	157	246
Investment in the energy sector and the autoroute 5/	66	*44*	89	*133*	178

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

2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

5/ Investment in the autoroute plus investment under the plan Takkal financed form internal and external concessional resources.

Table 3 MEFP: Structural benchmarks, 2011-2012

Measures	MEFP §	Implementation date	Benchmark for review	Macroeconomic significance	Status
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT					
Create the organization chart and procedures for the entity responsible for managing the domestic and external public debt portfolio as well as market interventions	18	September 30, 2011	2^{nd}	Improve debt management	Met with delay
Prepare an project evaluation guide of (productive) public investments	30	Rescheduled, March 1, 2012	3^{rd}	Improve public investments planning	In progress
Start up the new debt entity	18	January 15, 2012	3^{rd}	Improve debt management	In progress
Prepare a medium-term debt strategy	18	June 30, 2012	4^{th}	Improve debt management	In progress
Finalize draft of a new tax code and submission to parliament	16	September 30, 2012	4^{th}	Increase state's resources and promote private sector development	New
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT					
Settle the final amounts of extrabudgetary expenditure and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit.	28	June 30, 2011	2^{nd}	Strengthen public financial management and fully normalize financial relation with the private sector	Met

Formulate a strategy and timetable for the establishment of a Treasury Single Account.	19	September 30, 2011	2nd	Strengthen public financial management	Met
Make use of the company's national registration number a compulsory requirement for customs operations.	17	January 1, 2012	3rd	Modernize the tax administration	New
Complete a comprehensive survey of government agencies and their missions.	25	January 31, 2012	3rd	Strengthen public financial management	New
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE AND ENHANCING EFFICIENCY OF THE FINANCIAL AND ENERGY SECTORS					
Publish monthly on a dedicated government website within two weeks following the end of the month, full information on: (i) the Energy Sector Support Fund (FSE); (ii) project status; (iii) planning and execution; (iv) status of financing and costs; and (v) special account balance.	16	August 31, 2011	2nd	Improve the transparency of infrastructure-related investments	Met with delay
Finalize legislation fostering the development of financial leasing.	34	June 30, 2011	2nd	Improve the efficiency of the financial sector	Met
Finalize an initial audit of the use of the resources allocated to the extension of the highway three months after the start of the project and publish the report on the government's website.	15	October 31, 2011; rescheduled on April 30, 2012	2nd	Improve the transparency of infrastructure-related investments	Not met
Finalize the study of the resources used in the microfinance sector and their impact with the view to rationalize them.	38	January 31, 2012	3rd	Strengthen control and supervision of the microfinance sector.	In progress
Approve an action plan to tackle current level of subsidies to electricity consumers	29	April 30, 2012	4th	Energy sector development	New

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, December 2, 2011

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

I. PROGRAM CONDITIONALITY

2. The 2011 and 2012 quantitative assessment criteria for end-June and end-December, and the quantitative indicators for end-March and end-September, are shown in Tables 1 and 2 of the MEFP, respectively. The structural benchmarks established under the program are presented in Table 3.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

The Government

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

Overall Fiscal Balance (Program Definition)

Definition

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

Example

5. The floor on the overall fiscal balance including grants (program definition) as of December 31, 2011, is CFAF 427.3 billion. It is calculated as the difference between total government revenue (CFAF 1545.5 billion) and total expenditure and net lending (CFAF 1972.8 billion).

Adjustment

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

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

8. The overall fiscal balance including grants is adjusted downwards/upwards by the amount that the investment for the energy sector and the autoroute financed with domestic resources exceeds/falls short of the programmed amounts indicated in tables 1 and 2 of the MEFP. The downward adjustment is capped at CFAF 50 billion.

Reporting requirements

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

Social Expenditure

Definition

10. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. This criterion is set as a floor in percent relative to total spending (including the FSE) excluding capital expenditure related to the extension of the autoroute (and in 2011 also excluding interest charges on financing of the autoroute extension) and the Plan Takkal investment projects.

Reporting requirements

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

Budgetary Float

Definition

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

Reporting requirements

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

Spending Undertaken Outside Simplified and Normal Procedures

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

15. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 13, to Fund staff on a monthly basis with a maximum delay of 30 days.

Government External Payments Arrears

Definition

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

given in paragraph 18 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

17. The authorities will promptly report any accumulation of external payments arrears to Fund staff.

Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

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

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

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

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

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

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

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

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

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

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

23. **Special provisions***:*

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

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

c) A separate ceiling equivalent to CFAF 44 billion in 2011 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

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

Public Sector Contracts Signed by Single Tender

Definition

25. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector

contracts entered into by the government or any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude fuel purchases by SENELEC for electricity production. This exclusion reflects new regulation, which requires SENELEC to buy fuel directly from SAR based on the existing price structure.

Reporting requirements

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

III. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

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

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

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

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

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

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

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

The provisional monthly balance of the Treasury accounts; and

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

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

28. During the program period, the authorities will transmit to Fund staff provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances on a monthly basis with a lag of no more than 30 days. The data will be drawn from preliminary consolidated Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no more than one month after the reporting of provisional data.

29. The central bank will transmit to Fund staff:

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

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

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

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

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

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

a) Preliminary TOFE and transition tables with the delay of two months;

b) SIGFIP execution table with the delay of two weeks;

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

d) Full information on: (i) the operations of Energy Sector Support Fund (FSE); (ii) Plan Takkal investment project; (iii) planning and execution of these projects; (iv) details of

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financing and updated costs; and (v) the balance of the escrow account with the resources of the Eurobond issued in 2011 allocated to the Takkal project (within three weeks).

e) Full information on: (i) the status of the projects related to the extension of the autoroute to AIDB, Mbour and Thies; (ii) costs of the projects and their updates; (iii) financing and cost of financing linked to the projects; (iv) the balance of the escrow account with the resources of the Eurobond issued in 2011 and allocated to the extension of the autoroute (within three weeks).