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

November 24, 2015

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

Letter of Intent

Dakar, Senegal

November 24, 2015

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

Madame Managing Director:

1. The Government of Senegal requests completion of the first review of its 2015–17 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 May 8, 2015. In support of this request, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the program over the past six months and updates the government's short- and medium-term objectives and policies under the program.
2. These policies are consistent with the new economic and social policy reference framework for the medium to long term referred to as the *Plan Sénégal Emergent* (PSE). The PSE focuses on three strategic pillars: (i) structural transformation of the economy and growth; (ii) human capital, social protection, and sustainable development; and (iii) strengthening of governance, promotion of peace and security, and consolidation of the rule of law.
3. The program is intended to guide Senegal in implementing its new development strategy (PSE), which relies on high, sustainable, and inclusive growth to substantially reduce poverty while safeguarding macroeconomic stability and debt sustainability. The program responds to growth impediments, and will, in the short and medium term, result in the initiation of bold actions to stimulate private initiative and creativity in order to realize the people's aspirations towards well-being. Reforms are aimed at restoring the government's fiscal space and creating a more attractive business environment for private-sector development.
4. All end-June assessment criteria were met but the end-June indicative target on tax revenue was missed because of a shortfall in customs revenue. This shortfall was due to higher than anticipated tax expenditure, the January 2015 introduction of the ECOWAS common external tariff and lower oil prices. Continued rationalization and better control of public expenditure helped meet the fiscal deficit target despite the shortfall in revenue. All structural benchmarks were met.

5. The government believes that the policies and measures set forth in the attached MEFP are appropriate for achieving the objectives of the PSI-supported program. Given its commitment to macroeconomic stability, the government will promptly take any additional measures needed to achieve the program objectives. It will consult with the IMF—at its own initiative or whenever the Managing Director requests such consultation—before adopting any such measures or in advance of revisions 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 program objectives.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which includes a debt sustainability analysis.

Sincerely yours,

/s/

Amadou BA

Minister of Economy, Finance, and Planning

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

Memorandum of Economic and Financial Policies, 2015–17

1. This Memorandum updates the Memorandum of May 8, 2015, on our economic and financial program supported by the Policy Support Instrument for 2015–17. It outlines the policies that we intend to pursue for the remainder of 2015 and during 2016 to achieve the objectives of Senegal’s development strategy (*Plan Sénégal Emergent – PSE*).

RECENT ECONOMIC DEVELOPMENTS

2. The domestic economy benefitted from the initial implementation of the PSE.

Economic activity consolidated during the first quarter of 2015, with GDP growth at 4.6 percent in the first quarter and 5.2 percent in the second quarter. This favorable development is attributable notably to the strong performance of the chemical industries, sugar production, refining, cement, construction and energy. We expect growth to exceed 5 percent in the course of this year and to be close to 6 percent in 2016. Inflation, measured in respect of average prices during the first six months of 2015 over those during the corresponding period of 2014, amounted to -0.7 percent and will stay below 2 percent. With the fall in the price of oil, the GDP deflator stands at 0.2 percent in 2015 and should be 1.8 percent in 2016. This has led to downward revisions of nominal GDP for 2015 and 2016.

Program Implementation remains satisfactory

3. Overall, all of the program’s quantitative assessment criteria for end-June 2015 were achieved, including the budget deficit target. The indicative target for tax revenues was missed by 0.4 percent of GDP on account of higher than expected tax expenditures which impacted customs revenue. Progress was also recorded in structural reforms, with the achievement of three planned structural benchmarks. In particular, payments of tax amounts over CFAF 100,000 in cash have been eliminated (**structural benchmark June 2015**). We have institutionalized the Precautionary Reserve envelope in the draft budget 2016 (**structural benchmark September 2015**) and carried out cost-benefit analyses for more than ten projects that will be included in the 2016 budget (**structural benchmark October 2015**). As regards the other structural benchmarks to be achieved in 2015, some important milestones have been laid down, particularly with respect to establishing the TOFE in accordance with GFSM 2001/2014, but also in terms of assessing projects financed by public-private partnerships (PPP), thanks to the information now available, which will allow us to perform an assessment at the latest before the end of the second half of this year.

4. Regarding the other structural reforms, a mechanism designed to monitor whether public investment projects have been carried through to completion was created by decision of the Minister for the Economy, Finance and Planning. Furthermore, as part of measures to strengthen our staff’s capacities in implementing and monitoring the program supported by the Policy Support Instrument (PSI), the Fund provided high-level training for experts from the Macroeconomic

Framework Committee on the use of DMX platform for the management of macroeconomic data pertaining to projections and program monitoring.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR THE REMAINDER OF 2015

A. Fiscal Policy

5. The budget deficit target of CFAF 389 billion (4.8 percent of the revised GDP) for 2015 remains unchanged. The gap in revenue may amount to 14 billion, attributable notably to customs revenue. To close the gap and keep the same level of deficit, the government will take measures that will include reducing tax expenditures. If, at end-year, revenue fails to reach the programmed levels, the deficit objective will be achieved by controlling expenditure, in particular expenditure related to the precautionary reserve. The government will undertake a comprehensive examination of parafiscal taxes, including those on petroleum products. These taxes will ultimately be included in the budget and, as a counterpart, the amounts of transfers will be treated as a subsidy.

6. The government will continue to streamline spending on public consumption to boost investment in human capital and public infrastructure. In 2015, the government froze pay supplements at the current level, tightened controls on overtime, capped the number of staff hired under the "*corps émergents*" recruitment program for integration into the civil service at 4,000, and froze recruitment in selected, non-priority areas (excluding security and front-line staff in the fields of education and health). As a result of these measures, it will be possible to limit the wage bill to CFAF 526 billion in 2015.

7. Streamlining of tax expenditure will continue. The government will take measures to reduce tax expenditure on the basis of the 2013 report on tax expenditure and the recommendations of the IMF Technical Assistance.

8. The precautionary reserve, already established, will be institutionalized. For 2015 an amount of CFAF 52 billion, reported in the investment part of the 2015 initial budget law, has been mobilized, of which CFAF 38.6 billion to fund priority investments that are sufficiently mature (the *Route des Niayes*, the high-speed regional rail network, low-cost housing, integrated tourist zones). The remaining CFAF 13.4 billion relates to projects that cannot be completed in 2015 because of incomplete technical, economic and financial studies (tramway, dredging of the Sine-Saloum delta, business park, "Green cities for jobs" special program). The available resources could be redirected towards other growth-enhancing projects provided that the revenue allows it. For 2016, the Reserve will also include a part linked to current expenditure, which will be mobilized on the basis of the progress made in implementing the reforms agreed with the technical ministries.

B. Remainder of the Reforms for 2015

9. We undertake to increase efforts to speed up the structural reforms.

10. We will update the agency restructuring plan. A decree caps the level of pay, according to category, for Directors General and members of the decision-making bodies. By end-December 2015, the Ministry of Economy, Finance and Planning will adopt a decision setting the maximum levels of pay for the rest of agency staff. A technical committee will be instituted to update the agency restructuring measures. For those that are to be maintained, agency performance contracts (PCs) will be widely used by 2020. With support from the World Bank, at least (8) PCs will be signed by December 2015 (**structural benchmark**) and their implementation will be closely monitored by the authorities. By end-2015, staff at the agencies earmarked for closure (in accordance with the decision taken) will be redeployed and useful functions transferred to other agencies.

11. We will continue efforts to improve accounting, fiscal and financial information.

Thanks to a joint venture by the Directorate General of Taxes and Government Property (*Direction générale des impôts et domaines — DGID*), the Directorate General of Customs (*Direction générale des douanes — DGD*) and the National Statistics and Demographics Agency (*Agence Nationale de la Statistique et de la Démographie — ANSD*), the national registration number for enterprises and associations (NINEA) will be finalized by end-2015 (**structural benchmark December 2015**).

12. The government undertakes to take a decision regarding Senegal Airlines by end-November 2015. This involves either setting up a restructuring plan that does not compensate private shareholders or, alternatively, closing Senegal Airlines and creating another airline. Private shareholders will, under no circumstances, be compensated for their losses, nor will they receive a share of the company beyond their new capital contribution. Furthermore, the government will look for strategic partners to ensure the successful operation and profitability of the restructured or newly created airline.

13. The government undertakes to establish, by end-December 2015, three working groups tasked with: (i) examining tax expenditures, (ii) analyzing troubled companies, and (iii) reviewing government subsidies to enterprises. In the first quarter of 2016, these working groups will put forward appropriate and fully transparent measures to provide suitable solutions to the problems identified. Any new tax exemption will be granted in line with the prevailing rules.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2016

14. The main objective is to establish conditions conducive to stronger, more inclusive growth for meaningful poverty reduction. Growth is expected to pick up to 5.9 percent in 2016 as reforms take hold. In fact, growth could be higher than 6 percent in 2016 with an acceleration, which the government is aiming at, in the implementation of major agriculture, mining, energy, infrastructure and tourism reforms set forth in the PSE. Inflation is expected to remain within the 1–2 percent range. The current account deficit (as a percentage of GDP) is expected to reach 8.7 percent of GDP in 2016 and decline thereafter.

15. To enable Senegal to build on the recovery in global growth and on the more buoyant subregional environment, the IMF-supported authorities' program will revolve around the following three aims: (i) rebuild the government's fiscal space; (ii) strengthen public financial management and governance; and (iii) improve the business environment.

C. Rebuild the Government's Fiscal Space

16. The target for the fiscal deficit is 4.2 percent in 2016. This target remains feasible in light of the developments noted (changes in the international environment, particularly in terms of barrel and commodity prices). It is essentially dependent on good revenue collection, proper current expenditure control, and higher investment spending to support growth. The DGID will mobilize revenue primarily by taking further steps to control the tax base. This will involve, first, a restructuring of the relevant units to focus them on the desired objective; to this end, a new organization chart for the DGID has been drafted and submitted to all domestic partners, and their recommendations are now being considered. The draft text, as validated, will be available by the end of the first quarter of 2016. This reform will constitute a reorganization of the DGID, involving:

- transforming the Large Taxpayers Center (CGE) into the Large Taxpayers Directorate (DGE), with subsequent elimination of the Specialized Tax Services Directorate;
- creating the Medium-Sized Taxpayers Directorate (DME), and at the same time
 - i) reducing the eligibility threshold for the Medium-Sized Taxpayers Center (CME) from CFAF 200,000,000 to CFAF 50,000,000;
 - ii) creating one or two new CMEs;
- More effective control, with the gradual transfer of tax controls from the Fiscal Control and Intelligence Directorate to the operational directorates (DGE, DME); the DCFR will now focus on defining the fiscal control policy and strategy, as well as on intelligence gathering. To this end, a data processing center will be implemented to provide input to a tax database (the tax database and the data processing center are in the course of implementation);

Improving revenue mobilization will also require other actions to reinforce revenue collection efforts:

- formation of a group of prosecution officers [*agents de poursuites*]: the officers have been recruited and are now being trained. They will be operational by March 2016 at the latest;
- other means of payment (e-cash [*monétique*]) now under study. These reflect the intention of the DGID to integrate into its network all the payment instruments in circulation in the monetary system. In the short term, the DGID is seeking to give effect to payment by bank transfer. This measure will initially apply to taxpayers covered by the CGE, within six months after the accounting units of the DGCPT become effectively connected to the Automated Interbank Clearing System of WAEMU (SICA–UEMOA) and

the Regional Real-Time Gross Settlement System (STAR–UEMOA), planned for the end of 2015.

The government will also deepen the reflection on the establishment of an independent accounting network in the DGID with the creation of a Senior Accountant who would be in charge of, inter alia, direct taxes, and payments of back taxes controlled by the DGID following tax audits.

17. Lastly, with respect to fiscal policy, the authorities are planning to review the implementation of the new General Tax Code (*Code général des impôts*) with the help of an IMF technical assistance mission. This review will make it possible to further streamline and refine the new Code. Discussions on the tax system in the financial and telecommunications sectors as well as on the imposition of a business license tax (*patente*) on factories and industrial facilities will be finalized in the first quarter of 2016. They should lead to the introduction, by September 2016 at the latest, of legislation designed to streamline taxation on telecommunications and in the financial sector.

18. The DGD will focus on simplifying tax revenue collection procedures. Each commitment is made operational by a series of reforms and measures. The DGD will become increasingly involved in the actual implementation of the NINEA, the governance of which is ensured by the ANSD, and the interconnected network of the financial agencies. To support the Senegal government's key investment projects, the DGD will establish simplified and personalized procedures for enterprises to whom contracts have been awarded.

19. Spending on public consumption will continue to be streamlined. Regarding the wage bill, in addition to control measures, the following will be transferred to current expenditure (heading 4): on the one hand, expenditure for staff of the institutions, and on the other, the "seed funds" of the military. Moreover, the necessary measures will be taken to clean up the records on allowances by eliminating amounts computed in error. Ad hoc audits will be conducted in certain sensitive sectors to ensure the proper functioning of the system established following the civil service audit. Finally, in 2016, the government intends to: (i) review the legal basis and eliminate unjustified payments; (ii) streamline the procedures for preparing and implementing administrative acts with a view to reducing the time elapsing between their date of signature, the date they come into force, and the date on which they are effectively implemented in the pay system; (iii) reform payroll management; rationalize consumption of goods and services and reallocate savings to operation and maintenance; (iv) reallocate wage bill savings in part; and (v) strengthen the oversight of public hospitals.

20. The government intends to increase investment effectiveness. To this end, actions will focus on improving feasibility studies and socio-economic assessments by establishing a platform (integrated projects bank) which describes the lifecycle of the projects. This platform will have the functionalities and interface necessary for communication between sectoral ministries and the Ministry of the Economy, Finance and Planning. The entire project assessment chain will be duly addressed, from the ex-ante assessment through to the ex post assessment.

21. Improved efficiency of investments in financial and nonfinancial assets is also one of the concerns identified by the authorities. Although the government portfolio includes many strategic assets, it is not managed holistically. To rectify this, a management strategy for government and public enterprise portfolios will be defined in the first quarter of 2016 (structural benchmark). Work to collect information has already begun with a census of financial assets held in the country. However, in the interests of ensuring overall consistency, a comprehensive review of assets held abroad will also be carried out.

22. The government will assess ex ante all projects financed under a public-private partnership (PPP), pursuant to Article 38 of Law No. 2014–09 on partnership contracts and in accordance with the decree implementing this law. These midterm assessments will be carried out periodically, at least once a quarter. The government will use the PFRAM, an instrument for analyzing the fiscal implications of PPP-type projects. The government will compile a database of existing projects, analyze their fiscal costs and integrate them in the fiscal projections. All new projects financed as PPPs will be subject to an analysis of the fiscal costs.

23. The government will introduce the precautionary management reserve for 2016. In the 2016 budget, the reserve, amounting to 45 billion, will include both current expenditure (including wages and salaries, goods and services, transfers and other expenditure) and capital expenditure. The precautionary reserve in the operating budget will be CFAF 10 billion. The mobilization of these resources is subject to the ministerial departments implementing the reforms in their respective economic sectors, particularly higher education, national education, health and social action. For the investment budget, the precautionary reserve, amounting to CFAF 35 billion, will only be mobilized for projects whose profitability has been demonstrated by a feasibility study.

24. The government will consider the possibility of mobilizing nonconcessional external loans in 2016. The government could intervene in international financial markets or use the nonconcessional facilities of multilateral donors, which are equipped to finance large projects within short timeframes. The resources would be earmarked for financing investment projects, particularly those involving road infrastructure, the energy sector, urban water, and sanitation.

25. Senegal is now recognized as a country with the capacity to autonomously manage its debt. To improve debt management capacity in the absence of debt limits in the program, the government will: (i) continue to develop a medium-term debt strategy to be appended to the budget; (ii) announce, for the 2016 budget, the central government debt ratio, sustainable over five years, with a commitment in case thresholds are exceeded; corrective measures (over four years) would be taken in the budget that follows; and (iii) introduce a database and establish a mechanism for monitoring all external and domestic debt by public enterprises and all collateral set aside by the government on this debt. The National Public Debt Committee (*Comité National de la Dette Publique* — CNDP) will also be strengthened and expanded to cover other government departments.

D. Strengthen Public Financial Management

26. In the field of budget management, the government intends to organize high-level meetings between government members to discuss budget issues before the final budget decisions are made. Moreover, strict performance criteria for the allocation of additional budget resources will be defined in the circular letter on budget preparation.

27. The implementation of the Treasury Single Account (TSA) will be achieved. The plan for the first quarter of 2016 is to extend the first-generation TSA—limited to the bank accounts of direct Treasury accounting officers (*Comptables Directs du Trésor — CDT*)—to all bank accounts within the network of accounting staff in public institutions and agencies (second-generation TSA). The second-generation TSA will be deployed and operational in June 2016 (**structural benchmark**). The TSA will be finalized in December 2017 and the assessment criteria of the accounts that are to be “repatriated” will be established.

28. The National Governance Strategy (*Stratégie nationale de bonne gouvernance*) will continue to be implemented. The new reforms are based, in particular, on an inclusive mechanism for monitoring public transparency, one that involves instituting a national committee the tasks, organization and functioning of which will be defined by a decree (now circulating within the administration in draft form) and strengthening legislation and mechanisms on access to information. On this last point, the government will move to adopt a general law on access to information, in a manner complementary to the provisions of the transparency code.

E. Promote the Private Sector

Energy Sector

29. The government will continue to reform SENELEC. The cost of the reforms is estimated at CFAF 225 billion between 2016 and 2018. The reform plan will be submitted by end-November 2015 for technical support and financing from Senegal’s development partners, in particular the World Bank and the African Development Bank.

Financial Sector

30. To promote the use of banking services and facilitate access to bank lending, the government is also committed to: (i) developing and implementing a financial education program for small- and medium-sized enterprises (SMEs); (ii) putting in place a national financial inclusion strategy in 2016; and (iii) Study the possibility of extending to the private sector and to equivalent employees the measure concerning the payment of wages in excess of CFAF 100,000 by direct deposit to their bank accounts or by any electronic means of payment . Furthermore, the effectiveness of introducing credit information bureaus (*bureaux d’informations sur le crédit — BIC*) in 2015 will help establish a healthy lending environment, promote the credit culture, contain bank indebtedness, and safeguard financial stability.

31. The gains made in supporting SMEs/SMIs will be consolidated. The government has created a unit for labeling SMEs in order to provide information and rating system for the banking system. From 2016, the National Economic Development Bank (*Banque nationale de Développement économique — BNDE*) will take all steps necessary to increase its contribution to the financing of SMEs/SMIs. Moreover, the BNDE will commit to providing, over time, the highest quality banking terms in the SME-SMI subsector (in particular an average annual rate of around 6.5 percent, below the local domestic market rate). As regards the Priority Investment Guarantee Fund (*Fonds de Garantie des Investissements Prioritaires — FONGIP*), in 2015–16, the guarantee activities it already has in place for SMEs/SMIs will be consolidated. In the context of its medium-term development, FONGIP must highlight the leverage stemming from the use of resources allocated to it by the government.

32. The government will continue to diversify financial instruments that are not necessarily bank-related. To that end, particular focus will be placed in 2016 on (i) producing an action plan for the development of factoring in Senegal, (ii) promoting the development of Islamic finance in Senegal, notably by establishing an Islamic microfinance institution, and (iii) developing capital markets. With a view to improving SME access to public procurement, the government will launch a strategy to establish a procurement fund.

33. The authorities are going to start to present financial stability indicators on the basis of the latest version of the Manual of Financial and Banking Statistics. With this aim in mind, the Central Bank of West African States (BCEAO) will compile and publish financial soundness indicators (FSIs) and complete the templates for FSM (metadata), FSD (FSIs), as well as FS1 (institutional coverage of FSIs) and FS2 (sectoral financial statements of the institutions). This will make it possible to improve transparency in the financial and banking sectors, monitor better the stability of the financial sector and nonperforming loans, and prevent banking difficulties.

Business climate

34. The government plans to expedite the finalization of work being carried out by the commission in charge of land reform. The government will erect investment platforms to support local governments in promoting investment opportunities in Senegal’s eco-geographical areas. The Program for the Inclusive and Sustainable Development of Agribusiness (*Programme de développement inclusif et durable de l’agrobusiness — PDIDAS*) provides for technical assistance for rural communities to enable them to allocate land to private operators according to an inclusive, transparent, and competitive process.

NEW PROGRAM MONITORING INDICATORS

35. Quantitative assessment criteria have been defined for 2015 and 2016. Quantitative assessment criteria for end-December 2015, end-June 2016, and end-December 2016, as well as indicative targets for end-March 2016 and end-September 2016 have been proposed to monitor program implementation in 2015–16 (see Table 1 of the MEFP below). The government and Fund staff have reached understandings on structural benchmarks presented in Table 2 of the MEFP.

Reviews will take place every six months. The second review is expected to be completed by end-June 2016, the third by end-December 2016, and the fourth by end-June 2017.

36. In line with the Fund's new debt limits policy, the authorities are requesting elimination of the assessment criterion for nonconcessional external debt. Senegal remains at a low risk of debt distress, its debt management capacity is adequate, and its data for debt surveillance are comprehensive and reliable. Additional measures linked to the monitoring of possible liabilities in PPP projects and government guarantees have also been taken.

37. To improve program monitoring, the departments of the Ministry of the Economy, Finance and Planning have the DMX platform. The platform will be used to analyze data, sharing with the Fund and the forecasts of the program's key indicators.

Table 1. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2015–16
(GSFM 2014)

	2015				2016					
	Mar.		Jun.		Sep.		Dec.			
	Assessment Criteria (AC)		IT		AC		IT			
	Act.	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.
(CFAF billions, unless otherwise specified)										
Assessment criteria¹										
Floor on net lending/borrowing ²	...	-144	-138	met	-255	-389	-52	-137	-244	-372
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the public sector (US\$ millions) ³	...	1,000	0	met
Ceiling on spending undertaken outside normal and simplified procedures ³	...	0	0	met	0	0	0	0	0	0
Ceiling on public sector external payment arrears (stock) ³	...	0	0	met	0	0	0	0	0	0
Ceiling on the amount of the budgetary float	...	50	28	met	50	50	50	50	50	50
Indicative targets										
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	...	15	5	met	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	...	35	41	met	35	35	35	35	35	35
Floor on tax revenue	...	825	796	not met	1,181	1,583	396	889	1,283	1,720
Maximum upward adjustment of the overall deficit ceiling owing to										
Shortfall in program grants relative to program projections	...	15	0		15	15	15	15	15	15
Memorandum items:										
Program grants	...	15	15		28	40	5	21	40	58

Sources: Senegal authorities; and IMF Staff estimates.

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

²GSFM 2014 definition. Cumulative since the beginning of the year.

³Monitored on a continuous basis. The PC is not applicable starting from December 2015.

Table 2. Senegal: Structural Benchmarks for 2015 and 2016

Measures	Target date	Status
Conduct an ex-ante, midterm, and ex post evaluation of all projects financed under a public-private partnership (PPP)	Continuous	Ongoing
Sign performance contracts for eight agencies	December 2015	Ongoing
Eliminate cash tax payments above CFAF 100,000	June 2015	Completed
Operationalize the connection between the DGI and the DGID to facilitate the exchange of data based on the unique identification NINEA.	December 2015	Ongoing
Submit at least ten investment projects listed in the 2016 budget for cost-benefit analysis	October 2015	Completed
For the 2016 budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	December 2015	Ongoing
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Completed
Collect at least 50 percent of taxes left unpaid in 2014	December 2015	Ongoing
Implement the agency reform plan by limiting budget resources, and restricting their use to the payment of wages, for the 16 agencies pending dissolution.	December 2015	Ongoing
Institutionalize the precautionary management reserve	September 2015	Completed
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Ongoing
2016		
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	June 2016	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	
Extend the first-generation TSA system to all of the bank accounts of the network of accounting officials of public agencies and institutions	June 2016	
2017		
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017	
Introduce a medium-term budget framework in line with WAEMU directives.	March 2017	

Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015–17. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

PROGRAM CONDITIONALITY

2. The assessment criteria for end-June 2015, end-December 2015 and end-June 2016 and the indicative targets for end-March 2015 and end-September 2015 and end-March 2016 are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government and Public Sector

3. Unless otherwise indicated, “government” in this TMU means the central government of the Republic of Senegal. It excludes the central bank and the non-government public sector (see paragraph 4).

4. Unless otherwise indicated, “public sector” in this TMU means the government, local governments and all majority government-owned or controlled entities.

B. Net Lending/Borrowing (Program Definition)

Definition

5. Net lending/borrowing (program definition), or the overall fiscal balance, is the difference between the government’s total revenue and total expenditure (costs and acquisition net of nonfinancial assets). The operations of the Energy Sector Support Fund (FSE) are integrated in the TOFE. The definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

Sample Calculation

6. The floor on net lending/borrowing (program definition) as of December 31, 2014 is minus CFAF 381 billion. It is calculated as the difference between revenue (CFAF 1,877 billion) and total expenditure (CFAF 2,258 billion).

Adjustment

7. The floor 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, Table 1).

Reporting Requirements

8. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days after the end of the relative month. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance will be drawn mainly from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no later than two months after the reporting of the provisional data.

C. Social Expenditure

Definition

9. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply (as contained in the table on social expenditure).

Reporting Requirements

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

D. Budgetary Float

Definition

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

Reporting Requirements

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

for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

E. Spending Undertaken Outside Simplified and Normal Procedures

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

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

F. Public Sector External Payments Arrears

Definition

15. **External payment arrears** are defined as the sum of payments owed and not paid when due (in accordance with the terms of the contract) on the external debt contracted or guaranteed by the public sector. The definition of external debt given in paragraph 19 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting Requirements

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

G. Contracting or Guaranteeing of External Debt by the Public Sector

Definition

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

18. **Debt guarantees.** The guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind.)

19. **External debt.** External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor.

H. Public Sector Contracts Signed by Single Tender

Definitions

20. 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 by any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude classified purchases and fuel purchases by SENELEC for electricity production reflected in a new regulation that allows SENELEC to buy fuel from SAR on the basis of the current price structure.

Reporting Requirements

21. 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 amount of public sector contracts and the total value of all single-tender public sector contracts.

I. Tax Revenues

Definition

22. Tax revenues are the sum of revenues from taxes and levies on income, profits and capital gains, salaries and labor, on assets; taxes on goods and services; on foreign trade and international transactions; and other tax revenues. The indicative target will be assessed on the basis of data for these revenues provided in the quarterly TOFE.

23. Specifically, petroleum revenues are the subject of specific monitoring in connection with international price trends. These are the VAT on oil, excise taxes on oil, customs duties on oil, vehicle taxes, and the Petroleum Product Imports Security Fund (FSIPP).

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

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

- a) Three 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*). It also includes acts leading to the creation of a new agency or a new fund.
- b) Within a maximum lag of 30 days, preliminary data on:
 - i) Tax receipts and tax and customs assessments by category, accompanied by the corresponding revenue on a monthly basis;
 - ii) The monthly amount of expenditures committed, certified, or for which payment orders have been issued;
 - iii) The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.
 - iv) The quarterly report of the Debt and Investment Directorate (DDI) on the execution of investment programs;
 - v) The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;

- vi) The provisional monthly balance of the Treasury accounts; and
- vii) Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for “budgetary revenues and expenditures,” and between the TOFE and the net treasury position (NTP), on a quarterly basis; and
- 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.

25. 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.

26. The central bank will transmit to Fund staff:

- viii) The monthly balance sheet of the central bank, with a maximum lag of one month;
- ix) The monthly consolidated balance sheet of banks with a maximum lag of two months;
- x) The monetary survey, on a monthly basis, with a maximum lag of two months;
- xi) The lending and deposit interest rates of commercial banks, on a monthly basis; and
- xii) Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the table entitled *Situation des Établissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, with a maximum delay of two months.

27. 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 a delay of two months;
- b. SIGFIP execution table, the table for the central government and a summary table including regions, with a 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 a delay of one month. Full information on i) the operations of the Energy Sector Support Fund (FSE); ii) investment projects in the power sector; iii) planning and execution of these projects; iv) details of financing and updated costs.

