

**Senegal: 2002 Article IV Consultation and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with Senegal and Requests for a Three-Year Arrangement under the Poverty Reduction and Growth Facility and for Additional Interim Assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the combined 2002 Article IV consultation and requests for a three-year arrangement under the Poverty Reduction and Growth Facility and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **January 25, 2003**, with the officials of Senegal on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on April 11, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **April 28, 2003** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its April 28, 2003, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Senegal\*  
Memorandum of Economic and Financial Policies by the authorities of Senegal\*  
Statistical Appendix

\*May also be included in Staff Report

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

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SENEGAL

**Staff Report for the 2002 Article IV Consultation and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries**

Prepared by the African Department

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Amor Tahari and Mark Allen

April 11, 2003

- The 2001 Article IV consultation was concluded on September 28, 2001. The last arrangement under the Poverty Reduction and Growth Facility (PRGF), approved on April 20, 1998, expired on April 19, 2002, after a one-year extension.
- Discussions for the 2002 Article IV consultation and on a three-year program that could be supported by an arrangement under PRGF were held in Dakar during November 11-24, 2002 and the discussions on the program were concluded in January 16-25, 2003.
- The mission met with the Prime Minister, the Ministers of Finance and Economy, Energy, Agriculture, Social Affairs, and Labor; the Minister Delegate in charge of the Budget; the National Director of the Central Bank of West African States (BCEAO); and other senior government officials.
- The team, during some or all of the discussions, comprised Mrs. Lelde Schmitz (head), Messrs. D'Hoore, Wiegand, and Yulek and Ms. Le (all AFR), Ms. Allard (FAD), and Mr. Moers (PDR). The missions were assisted by Mr. Yao, Resident Representative, and worked closely with teams from the World Bank. Mr. Pinto Moreira (OED) took part in the November 2002 discussions.
- In the annexed letter and the attached memorandum on economic and financial policies (MEFP) dated April 10, 2003, the government describes its economic program for 2003-05, in support of which it requests a three-year arrangement under the PRGF, as well as interim relief under the enhanced HIPC Initiative for the period January 1 to December 31, 2003.
- Senegal has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.
- The authorities have agreed to the publication of the staff report, the letter of intent, and the MEFP, and to the holding of the Article IV consultation on a 24-month cycle, as long as Senegal remains on track with its PRGF-supported program.

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## EXECUTIVE SUMMARY

### Background and recent economic developments

- **Since the second half of the 1990s, macroeconomic stability and alleviation of some structural weaknesses** have sustained growth in per capita real income; however, remaining structural deficiencies have hindered strong, broad-based GDP growth.
- **Senegal's most recent PRGF arrangement expired on April 19, 2002** without the conclusion of the last review, as problems with operations of the electricity and groundnut enterprises weakened public finances and the implementation of reforms in the pension system and the groundnut sector fell short of targets. **The poverty reduction strategy paper (PRSP)** was considered by the Executive Boards of the IMF and the World Bank in December 2002.
- **The completion point under the HIPC Initiative** could be reached in late 2003, provided sufficient progress is made in health and education services and a successful six-month track record is established under the proposed program.
- **Overall economic developments in 2002 were mixed.** Real GDP growth decelerated to 2.4 percent in 2002 on account of a sharp weather-related drop in agricultural output. Inflation returned to low levels (2.2 percent). The external current account deficit, including grants, narrowed marginally to 4.7 percent of GDP on account of strong mining exports and subdued import demand.
- **Higher tax revenue and tight aggregate expenditure control have strengthened public finances**, with the basic fiscal balance moving to a surplus of 2.2 percent of GDP in 2002, from a deficit of 0.8 percent in 2001. The financial performance of those public enterprises that had required large budget transfers in 2001 improved in 2002.

### Article IV consultation issues and key elements of the proposed program

- **Key challenges on the path to high and equitable growth** are (i) the delivery of more and better infrastructure and social services, with emphasis on rural areas; and (ii) the removal of administrative, regulatory, judicial and financial resource impediments to an attractive investment climate. To address these challenges, the government intends to strengthen public resource management and implement, over the medium term, a well-sequenced set of reforms geared to reducing production costs.
- Under the **macroeconomic framework for 2003-05**, consistent with the more prudent scenarios of the PRSP, real GDP growth is projected to accelerate moderately to about 6 percent per year, while inflation should remain at about 2 percent.
- **Medium-term balance of payments prospects are favorable.** The external current account deficit, including grants, would widen to 5.6 percent of GDP in 2003, reflecting poor agricultural crops in 2002, but narrow to 5 percent of GDP thereafter. Senegal has

largely maintained the gains in competitiveness derived from the devaluation of the CFA franc in 1994.

- **The medium-term fiscal stance is geared to expanding social and infrastructure services in the context of PRSP implementation, while safeguarding macroeconomic stability and debt sustainability.** The overall fiscal deficit, including grants, is targeted to remain close to 1 percent of GDP (4 percent of GDP with grants excluded) over 2003-05, financed by concessional external loans, while the government will continue to reduce domestic indebtedness.
- The medium-term **structural reform agenda**, formulated in close collaboration with the World Bank, emphasizes strengthening the efficiency and transparency of public expenditure management, and removing major risks to the fiscal stance and critical impediments to private sector development. Reforms in 2003 focus on budget monitoring and control, modernization of tax administration, and on the electricity and groundnut sectors.
- As regards the banking system, **the authorities noted that it continued to be in generally good health.**

Selected Economic and Financial Indicators, 2000-05

	2000	2001	2002 Est.	2003	2004 Proj.	2005
			(Annual percentage growth)			
Real GDP	5.6	5.6	2.4	6.6	5.6	5.8
Consumer price index (annual average)	0.7	3.0	2.2	2.0	1.8	2.0
Broad money	10.7	14.5	8.3	8.8	9.2	8.6
			(In percent of GDP)			
Overall budget balance						
Including grants	0.1	-2.0	0.4	-1.3	-1.2	-0.9
Excluding grants	-2.0	-3.9	-1.6	-4.0	-3.7	-3.5
Basic budget balance	1.2	-0.8	2.2	0.3	0.7	0.7
External current account (incl. current official grants)	-6.3	-4.9	-4.7	-5.6	-5.0	-5.0

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

### Issues highlighted in the staff appraisal

- **The medium-term fiscal stance is appropriate**, reflecting implementation of the PRSP against the backdrop of conservative assumptions about execution and debt-service capacity.

- **Meeting the tax revenue target in 2003 may require additional tax measures;** these measures should be consistent with the medium-term objective of having a more efficient, transparent, and business-friendly tax system.
- Two policy issues under consideration by the authorities—**government employment and large infrastructure projects under private-public partnership**—need to be carefully reconciled with the program’s fiscal, macroeconomic, and good governance objectives.
- **The staff supports the government’s reform strategies in the electricity and groundnut sectors,** as well as the ongoing reforms in the postal, and public and private pension systems. They will reduce the risks of fiscal slippage, enhance growth prospects, and improve conditions for the poor.

## I. INTRODUCTION

1. In concluding the 2001 Article IV consultation on September 28, 2001, Executive Directors noted that the authorities had maintained an appropriate budgetary stance in 2001, despite spending pressures that arose in the run-up to the legislative elections. They stressed the need to better target and track government spending in priority areas, to improve the transparency of the treasury operations, and to strengthen public expenditure management systems. In reference to the Financial Sector Stability Assessment (FSSA), they called for further strengthening of the generally healthy financial system. Directors urged the authorities to address vigorously the long-standing structural problems in the groundnut and electricity sectors and in the postal service, so as to reduce risks to public finances and mend the economy's continuing fragility.
2. The authorities have requested a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in support of an economic program for the period January 2003 to December 2005, in an amount equivalent to SDR 24.27 million (15 percent of quota). Taking into account repayments, full disbursement under the schedule set out in Table 1 would bring Senegal's net outstanding use of Fund resources from 114.8 percent of quota at end-December 2002 to 65.1 percent of quota at end-June 2006.
3. Senegal's poverty reduction strategy paper (PRSP) was welcomed by the Executive Boards of the Fund and the World Bank in December 2002 as a sound basis for poverty reduction and concessional financing. They noted that the strategy needed to be embedded in a credible macroeconomic framework, based on realistic expectations with regard to private investment and the public administration's absorptive capacity. A summary of the PRSP is presented in Appendix VI.
4. In June 2000, Senegal reached the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). While initially targeted for end-2001, the completion point is now likely to be attained in late 2003, provided that, inter alia, Senegal can establish by then a six-month track record under a new PRGF arrangement. A summary of the status of compliance with completion point conditions at end-2002 is presented in Appendix V.
5. The World Bank's new three-year Country Assistance Strategy, covering the period 2003–05, was presented to the Board of IDA on April 3, 2003. In reference to the PRSP goals, World Bank support would emphasize expanding infrastructure, promoting private sector development, and strengthening public expenditure management, while offering a base case lending envelope of about US\$290 million.



## II. BACKGROUND AND RECENT DEVELOPMENTS

6. **A stable macroeconomic environment in the second half of the 1990s—which safeguarded the gains in external competitiveness achieved by the 1994 devaluation of the CFA franc—together with progress, albeit uneven, in reducing distortions in the economy, facilitated continued growth and prevented the reemergence of significant external imbalances.** Real GDP growth averaged 2.5 percent per annum on a per capita basis over that period. Inflation remained low, steadily decelerating to a rate of 0.7 percent in 2000. The external current account deficit, including current official transfers, remained in the range of 4-6 percent of GDP during 1995-2000.

Box 1. GDP: Growth in the 1990s			
	1990-93	1994-2000	Difference
(Average real growth rate)			
Primary sector	0.2	4.0	3.8
Agriculture	0.4	4.8	4.4
Livestock	2.4	3.3	0.9
Fisheries	-0.7	3.1	3.8
Forestry	-10.1	2.2	12.3
Secondary sector	1.7	6.2	4.4
Mining	-6.0	7.5	13.6
Industry	1.4	5.1	3.7
Oil milling	-6.1	11.2	17.3
Energy	-1.1	5.7	6.9
Construction & public works	7.8	9.1	1.3
Tertiary sector	1.1	4.8	3.7
Transportation	2.8	6.7	3.9
Commerce	-0.6	4.8	5.4
Government	1.1	2.1	1.0
Other services	2.4	5.1	2.7
GDP	1.0	4.9	3.9
GDP excl. agriculture	1.1	4.9	3.9
Exports of goods & services	-3.6	5.4	9.0
Imports of goods & services	3.3	5.2	1.9
GDP deflator (annual change) 1/	0.0	2.1	2.0
1/ The change in deflator refers to 1995-2000, thus excluding the one-time pass-through resulting from the devaluation.			

7. **The growth turnaround relative to previous periods was broad based (Box 1).** All sectors of the economy recorded growth rates over 1994-2000 that were higher, sometimes sharply so, than over the 1990-93 period, reflecting the effect of several broad factors, especially macroeconomic stability, in addition to the sectoral boost to tradables

brought about by the 1994 devaluation. While rapid growth in export-oriented sectors, such as mining and oil milling, supported a 9 percentage point turnaround in the growth rate of exports of goods and nonfactor services, growth in the non-traded sectors, such as construction and transportation, was strong as well. Improved stability and confidence also translated into an increase in the rates of savings and private investment, albeit at still relatively low levels.

Box 2. Key Economic Aggregates in the 1990s			
	1990-93	1994-2000	Difference
(In percent of nominal GDP)			
Primary sector	20.4	19.2	-1.2
Secondary sector	18.8	19.7	1.0
Tertiary sector	60.8	61.1	0.3
Public consumption	14.6	11.6	-3.0
Private consumption	78.7	77.6	-1.1
Gross fixed capital formation	13.8	16.7	3.0
Public	4.5	6.3	1.7
Private	9.2	10.5	1.2
Change in inventories	0.1	1.1	1.0
Exports of goods & services	24.2	31.3	7.1
Exports of goods	14.3	21.4	7.1
Imports of goods & services	31.4	38.3	6.9
Imports of goods	20.1	28.1	7.9
National disposable income	98.9	102.0	3.1
Gross national savings	7.9	12.9	5.0
External current account balance (incl. current transfers)	-5.0	-5.0	0.0
Overall fiscal balance (incl. grants)	-0.9	-0.2	0.7

8. **The cornerstone of macroeconomic stability in the second half of the 1990s was financial policies.** Fiscal policy was generally prudent, with the overall government deficit, including grants, averaging 0.2 percent of GDP (3.1 percent, with grants excluded) in 1995-2000. It was complemented by a cautious monetary stance adopted by the members of the West African Economic and Monetary Union (WAEMU).

9. **In 2001, the government began to tackle some of the long-standing issues raised by Directors during the 2001 Article IV consultation (para. 1)**—with the liquidation of the groundnut marketing company, the removal of the state from price setting in the groundnut market, parametric reforms in the civil service pension system, and the strengthening of post office management. In the event, as problems with operations of the electricity and groundnut enterprises weakened public finances and the implementation of reforms in the

pension system and the groundnut sector fell short of targets, the last arrangement under the PRGF expired without the conclusion of the final review. In concluding the penultimate review of the arrangement (EBS/02/50, 3/21/02), shortly before its expiration in April 2002, Executive Directors called for stronger commitment to reforms, as well as more transparency in public expenditure management and reporting.<sup>1</sup>

10. **Overall economic developments in 2002 were mixed.** Real GDP growth decelerated from rates of above 5 percent in the preceding seven years to 2.4 percent, reflecting a 21.2 percent drop in agricultural output due to unusually poor and ill-timed rainfalls.<sup>2</sup> Nonagricultural GDP growth remained close to 5 percent, boosted by strong manufacturing and construction activity. The rate of inflation returned to low levels, with average growth of the consumer price index (CPI) slowing to 2.2 percent from a peak of 3.0 percent in 2001 caused by one-off factors, notably the unification of value-added tax (VAT) rates at 18 percent. The external current account deficit (including current official grants) narrowed marginally to 4.7 percent of GDP from 4.9 percent in 2001, despite a modest deterioration in the terms of trade, on account of strong mining exports and subdued import demand reflecting the destocking of goods imported in late 2001. Tourism receipts increased somewhat, against earlier projections of a decline in the context of a weak European economy and the aftermath of the September 11 events.

11. **While in 2002 the government stayed the course of prudent financial management (facilitated by the improved performance of key public enterprises) preparation for further structural reforms gained momentum only in the second half of the year.** Higher tax revenue and tight aggregate expenditure control strengthened public finances, with the basic fiscal balance<sup>3</sup> reaching a surplus of 2.2 percent of GDP in 2002, compared with projections of 1.3 percent and a deficit of 0.8 percent in 2001 (Table 6). The 10 percent increase in tax revenue (to 17.7 percent of GDP) reflected the unification of VAT rates in September 2001 and strong collection efforts in the second half of 2002, which, however, did not suffice to achieve the indicative revenue target of 18.1 percent of GDP. In light of the uncertain tax revenue performance, total expenditure and net lending were contained below the target level at 20.2 percent of GDP, down from 21.7 percent in 2001.

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<sup>1</sup> In September 2002, Directors considered a Report on Noncomplying Disbursement and Recommendation for Corrective Action (EBS/02/165). They granted a waiver for the nonobservance of the prior action related to the increase in electricity tariffs which had been scheduled for March 1, 2002 and implemented only in late April 2002. Retroactive billing from March 1, 2002 yielded the envisaged annual revenue.

<sup>2</sup> The lower-than-anticipated real GDP growth rate also reflects the adoption of new national accounting rules for members of the West African Economic and Monetary Union (WAEMU), under which agricultural value-added is now recorded in the year of harvesting, instead of one year later, at the time of marketing.

<sup>3</sup> Total revenues minus total expenditures and net lending, excluding externally financed capital expenditures and lending.

The targeted sharp cutback in subsidies<sup>4</sup> was only partially offset by strong growth in capital expenditure. Uncertainty about the timing of total HIPC debt relief, initially projected for 2002, also led the authorities to postpone related spending to 2003, yielding savings of 0.6 percent of GDP in 2002 relative to projections. The resulting unused HIPC resources were accumulated in a special account at the central bank. As a result, overall government operations, including grants, moved to a surplus of 0.4 percent GDP in 2002, from a deficit of 2 percent in 2001, and the government reduced its domestic debt.

12. **Regarding monetary developments**, broad money increased by 8.3 percent in 2002, boosted by the repatriation of foreign savings in the context of the euro conversion (Table 7). Senegal's net foreign assets position at the Central Bank of West African States (BCEAO) strengthened by 8.6 percent of beginning-of-period money stock. Growth in credit to the economy, at 4.7 percent, was subdued, as some large private and public enterprises reduced their recourse to the domestic banking sector, turning instead to foreign banks or the domestic bond market.

13. **The speed of structural policy implementation picked up in the second half of the year.** The authorities adopted a new public procurement code and applied WAEMU directives to strengthen expenditure management, including the new WAEMU expenditure classification system and budget execution software, and the creation of a new commitment control unit.<sup>5</sup> The Private Investment Promotion Agency (APIX) prepared an exhaustive action plan to simplify administrative procedures for private investment, drawing on a study by the World Bank's Foreign Investment Advisory Service (FIAS). A Presidential Investors Council, instituted in November 2002, has begun to identify impediments to private investment and reform solutions. Moreover, two policy reform committees were created, with the participation of the World Bank and other development partners, to discuss and design medium-term reform agendas in the electricity and groundnut sectors.

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<sup>4</sup> Spending on subsidies declined to 2.9 percent of GDP in 2002 from a peak of 5.3 percent of GDP in 2001, when transfers of about 3 percent of GDP were needed to cover accumulated losses of the electric utility, SENELEC, and the groundnut processing company, SONACOS. In 2002, the financial performance of these enterprises improved, although by less than envisaged. A change in management at SENELEC, together with the electricity tariff increase enacted in April and a budget subsidy of CFAF 4.3 billion, contributed to reduce sharply, albeit not to eliminate, its financial and operational problems (the company was not able to reduce its stock of payments arrears as planned). The cash performance of SONACOS improved, despite a 23 percent drop in output, owing to a more favorable price for its exports, lower prices to farmers for its inputs, and destocking.

<sup>5</sup> In the event, difficulties in implementing this new system hindered budget execution at the beginning of the year. While resorting to exceptional procedures to sustain the pace of budget execution, the authorities continued to maintain a tight control over expenditure commitments and gradually corrected these problems.

### III. POLICY DISCUSSIONS

14. The discussions for the 2002 Article IV consultation and a new program centered on (i) achievements and shortcomings in past economic policy design and implementation, and remaining challenges; (ii) the sources of the uneven record of implementation of past programs in the context of prolonged use of Fund resources by Senegal;<sup>6</sup> and (iii) looking forward, the design of the government's medium-term agenda for implementing its Poverty Reduction Strategy, including measures that could boost growth and external competitiveness, improve the efficiency of public expenditure, and accelerate poverty reduction within a sustainable macroeconomic framework.

#### A. Taking Stock: Achievements and Challenges

15. **In the months leading up to the start of discussions on a new medium-term economic program, the authorities had been exploring economic policy choices in light of performance under past programs.** In the discussions, the staff indicated that it shared the authorities' view that the recent period of sustained economic growth had benefited from financial stability and a continued, though not always steady, pace of reforms that had reduced distortions in the economy. The authorities were confident that, at this stage, the importance of prudent fiscal management had been internalized. They saw the major challenge ahead as sustaining momentum for implementing a comprehensive reform agenda that would trigger strong broad-based economic growth. Without such growth, avenues to poverty reduction would not open up, Senegal's economy would remain vulnerable to shocks, and past reform efforts might not bear the fruits of eventual graduation from exceptional external assistance.

16. **While deriving some encouragement from recently increasing investor interest,<sup>7</sup> the authorities noted that the necessary investor confidence could only be sustained through steady, measurable progress on a reform path endorsed by the public.** The PRSP process had provided the necessary direction and endorsement, but choosing the path and the goalposts required realism about the institutional capacity of implementation and a sequencing of reform steps in a manner that outcomes sustained reform commitment. The

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<sup>6</sup> The Independent Evaluation Office Report on the Prolonged Use of IMF Resources (EG/02/7; 8/12/02) also considered Senegal and identified five main reasons for its dependence on Fund Resources: large initial imbalances deeply rooted in structural weaknesses; broadening of objectives in the course of time; arrangements needed as a trigger for external funding; over optimism about the effectiveness of pre-devaluation strategy (prior to 1994); and stop-and-go pattern of program implementation, in particular with respect to structural reforms. In preparation for the discussions with the authorities, Fund staff explored choices regarding the scope, sequencing and instruments of reforms in a policy options paper.

<sup>7</sup> In 2000-02, on average 380 new projects were registered each year under Senegal's investment code, implying expenditure equivalent to 7.6 percent of GDP and the creation of 7650 new jobs annually.

authorities stressed that, in the past, poor choices in this respect had eventually stalled the reform process, and that sometimes excessive focus on short-term solutions to financial problems had come at the expense of addressing development challenges. With a view to raising the level of responsibility for, and interest in, successful reform implementation, the authorities have instituted the public monitoring of, and regular reporting on, PRSP implementation; plan to give the PRGF-supported program a high public profile; and have set up a new committee at the cabinet level to report on reform implementation to the Prime Minister.

17. **The staff agreed with the authorities' assessment of hindrances to growth and poverty reduction, as documented in the PRSP.** One key obstacle to reaching Senegal's growth potential and growth-commensurate poverty reduction has been the sharp urban-rural divide, which is the result of uneven growth and the relative neglect of the rural society in policy reform and expenditure programs. Other major obstacles include the lack of access to finance, especially for small and medium-sized enterprises; high production costs, reflecting persistent inefficiencies in infrastructure and general business risk associated with inadequate governance and transparency; and labor market rigidities.

18. **The authorities acknowledged that, even in public finance management, a strong point in past policy implementation, the reform agenda remained unfinished, notwithstanding major progress in recent years.** While instrumental in achieving financial stability, the strong central control of expenditure has fostered poor transparency and impeded needed improvements in the efficiency of expenditure programs. As a result, budget execution has been uneven, often falling short of spending targets and planned outcomes. Furthermore, fiscal management has been hampered by (i) the effects of the weak performance of public entities in key areas, such as the energy and groundnut sectors, and (ii) the cash deficits of public entities that hold accounts with the treasury, such as the postal and the pension systems.

## **B. Translating the Poverty Reduction Strategy into a Medium-Term Economic Program**

19. **The authorities have launched the implementation of their Poverty Reduction Strategy in 2003.** Its core objective is to reduce poverty in half by 2015, in line with the Millennium Development Goals, and it is structured along four axes: (i) creating wealth—increasing the income-earning capacity of the poor and enhancing their participation in the growth process; (ii) increasing access to social services, especially health and education; (iii) improving the living conditions of the poor and of vulnerable groups; and (iv) adopting a more decentralized approach to the implementation of policies and programs, and to the monitoring of outcomes. Fostering pro-poor growth translates appropriately into a sectoral focus on the rural economy and on the small and medium-sized enterprise sector. However, the PRSP offers little specificity regarding policy targets and sequencing, and some of its scenarios may appear overly ambitious.

20. **In determining the scope of the proposed program and the pace of reforms**, the authorities decided to give highest priority to first finishing the agenda of institutional/structural reforms that help protect public finances in the longer run, ensure a more efficient use of public resources, and remove some key obstacles to private sector development, before entering into the broad range of comprehensive sector policy reforms sketched in their PRSP. The staff agreed that a manageable agenda of fewer but far-reaching reforms would meet the need for careful technical preparation and involvement of stakeholders, and thus be more likely to sustain public support by producing tangible reform results in the short to medium term (Box 3). Therefore, the program focuses on (i) sustaining Senegal's record of macroeconomic stability; (ii) improving the effectiveness and transparency of public expenditure management; (iii) addressing, through fiscal and structural reforms, critical deficiencies in parastatals that either threaten the fiscal outlook or impede growth prospects and poverty reduction; and (iv) reforming the regulatory framework of the private sector.

21. **While the authorities viewed the PRSP's more optimistic scenario as a desirably ambitious point of reference, they chose for the purpose of medium-term financial planning more prudent assumptions** about implementation ability, the economy's absorptive capacity, aid availability, and the private sector response (MEFP, para. 16). They emphasized that, in light of experience with implementation, however, there should be the option of broadening the scope of the program so as to include additional policy reforms and accelerate public expenditure execution in priority areas. Given the early stage of some reform preparations, the program targets also allow flexibility in the speed and depth of implementation of those structural reforms, as well as in the associated budgetary costs. The staff shared the authorities' view that this program would broaden the base for sustainable growth, improve conditions for poverty reduction, and facilitate Senegal's graduation from exceptional financing.

22. The basic objectives of the **macroeconomic framework for 2003-05** are (i) to create conditions for real GDP growth to approach an annual rate of 6 percent, thereby allowing per capita income to increase by 3.2 percent per year; (ii) to keep inflation at about 2 percent, consistent with the exchange rate peg, and (iii) to contain the external current account deficit, excluding grants, following its widening to 7.6 percent of GDP in 2003—because of weather-related lower groundnut exports and higher food imports—at 6½ percent of GDP thereafter, a level commensurate with projected foreign direct investment and project aid (Table 3). In response to program policies, domestic investment would rise by 2½ percentage points to 21 percent of GDP over 2003-05, driven by PRSP- and HIPC-related investment in priority sectors by the government and a steady, though moderate, rise in private investment following the rebuilding of depleted agricultural stocks in 2003. Concurrently, a continued increase in domestic private savings, sustained by a return to normal harvests and projected stable terms of trade, would account for the 2½ percentage point increase in the total savings ratio to 11.6 percent by 2005 (Table 4). Consistent with these trends, the overall fiscal deficit, excluding grants, would be in the range of 3-4 percent of GDP over 2003-05, compared with an average deficit of close to 3 percent in the preceding five years.

### **Box 3. Structural Conditionality**

**Coverage of structural conditionality in the proposed program.** Structural conditionality under the proposed program (Appendix I, Attachment I, Annex II, Table 3) covers mainly (i) governance and transparency of public expenditure management, and (ii) reforms in the parastatal sector in areas of critical macroeconomic relevance, where insufficient progress was achieved under the previous program. The latter have been developed in close collaboration with World Bank staff. *Prior actions* comprise (i) the adoption of three remaining WAEMU directives on expenditure management, and (ii) the publication of a Letter of Energy Sector Policy. *Performance criteria* comprise (i) the publication on an experimental basis of monthly treasury accounts, (ii) the issuance of a tender for an Independent Power Producer (IPP) concession, and (iii) the privatization of the groundnut processing company (SONACOS). Reforms in expenditure management would help to improve the timeliness and transparency, and enhance internal and external control of, public expenditure. Parastatal sector reforms aim at removing major risks to the fiscal stance; in addition, the poor performance of the electricity parastatal (SENELEC) constitutes a major impediment to growth, and the weak performance of SONACOS hinders poverty reduction in the medium term, as groundnuts are the main cash crop for the rural poor. The *three structural benchmarks*, in the areas of public expenditure and economic statistics, also aim at improving transparency.

**Status of structural conditionality from earlier programs.** Senegal's previous PRGF arrangement expired on April 19, 2002. A number of important structural conditions were met, albeit with some delay, including the adoption of a new groundnut sector framework agreement (mainly entailing the removal of the state from groundnut price setting), the withdrawal of SONAGRAINES (a SONACOS subsidiary) from the marketing and transport of groundnuts, and a reform of the civil service pension scheme (FNR). The authorities failed to meet conditions in two areas: parametric reforms to FNR that would ensure long-term financial sustainability, and the privatization of SONACOS. Furthermore, the prior action related to the increase in electricity tariffs scheduled for March 1, 2002 was implemented only in late April 2002, with retroactive application to March 1, thereby resulting in a misreporting case (footnote 1).

**Structural areas covered by World Bank lending and conditionality.** The World Bank has approved a new Country Assistance Strategy for the fiscal years 2003-05 (Appendix III). The strategy does not envisage conditionality in the proposed program's reform areas for 2003. However, the World Bank has taken the lead role in supporting technical and policy work, including through technical assistance and investment lending, for envisaged reforms in the electricity and groundnut sectors, and postal and pension systems. Bank and Fund staffs also coordinate their approach on reforms in the areas of public expenditure management and tax incentives for private investment.

The status of **structural measures covered by HIPC completion point conditionality** is presented in Appendix V.

**Other relevant structural areas not included in the proposed program.** More specific conditionality in the areas of tax and civil service reforms will be considered at a later stage, as the authorities' plans still remain to be completed. Additional conditionality could also cover (i) fiscal transparency, in light of progress in implementing agreed-upon reforms; (ii) the President's Large Infrastructure Projects; (iii) external debt management, once the authorities have finalized a report on debt management with Debt Relief International (DRI); and (iv) possible measures to strengthen regulation and supervision, and support the development, of the financial sector.



## C. Medium-Term Outlook, Competitiveness, and Debt Sustainability

### Conditions for economic growth

23. Over the medium term, the authorities expect strong growth in construction; industry—particularly agribusiness and light manufacturing; and services—especially tourism and information technology, which would also significantly expand Senegal's export base. However, without tackling the main causes of the high production factor costs, in particular poor or inefficient infrastructure, especially in rural water, transportation and electricity,<sup>8</sup> the necessary investor interest is unlikely to materialize. Therefore, priority has been accorded in public sector policies to a major improvement in these infrastructure services, with the government also seeking to tap the expertise and resources of the private sector in these areas, in light of the good results this approach has achieved in the water and energy sectors to date. Regarding the transport sector, the authorities noted that they had been pursuing the idea of promoting large private projects, but without tangible results so far. Furthermore, a well-sequenced set of other measures (including reforms of taxation and the administrative and regulatory environment of the private sector, a modernization of the judiciary, and the strengthening of the institutional arrangements for the microfinance sector) is geared toward improving substantially investment conditions.

### Competitiveness and external sector policies

24. **Senegal has largely maintained the gains in competitiveness derived from the devaluation of the CFA franc in 1994.** The real effective exchange rate has remained broadly stable since 1994 (Figure 1). Other indicators, however, suggest that a deteriorating trend in the terms of trade could bring about a slow but steady fall in external competitiveness (Box 4). Such a terms of trade problem would be compounded by the country's continued dependence on relatively few export products, mainly groundnuts, fish, and phosphates, which together account for about 50 percent of exports of goods. In the absence of further export diversification and without addressing the sources of structural rigidities in the economy, slow growth of world demand for these products limits the scope for faster overall export growth, while adverse developments in the world markets for these commodities could affect the Senegalese economy. The authorities noted that exports of other high-value-added products, such as vegetables and horticulture products, had been on the rise, although starting from a very small base; and moreover, they expected Senegal to benefit from the provisions of the U.S. African Growth and Opportunity Act. On the services side, they stressed that Senegal had been able to enhance its attractiveness as a tourist

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<sup>8</sup> Senegal's infrastructure services are among the most expensive in the subregion, particularly with respect to electricity and, to a lesser extent, water. As regards transport infrastructure, it is scarce in rural areas, and poor land or rail connections to Mali, the gateway to the broader WAEMU market, sharply increase the cost of trade in the zone. In contrast, the telecommunication sector, which has been forcefully liberalized in recent years, is one of the most competitive in sub-Saharan Africa.

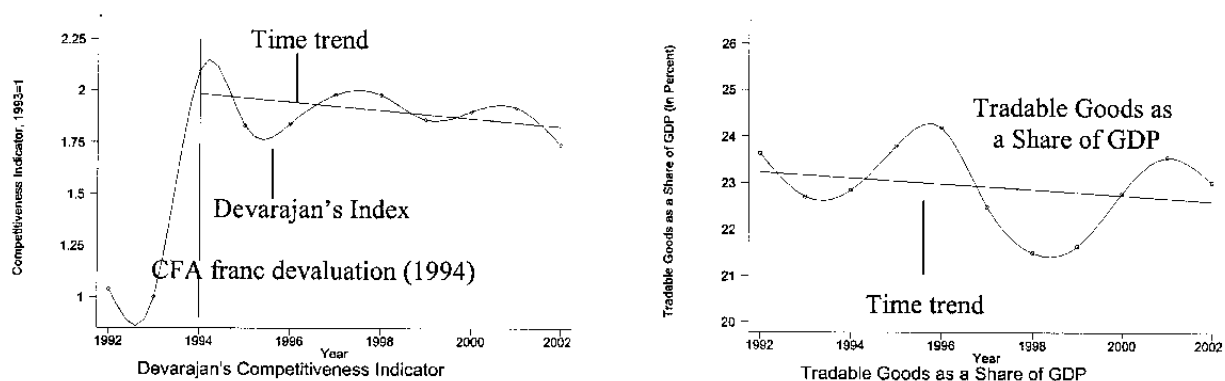
destination. Favorable long-term prospects for this sector hinge on Senegal's ability to sustain its relative advantages—particularly political stability, good communications, and adequate hotel infrastructure—in the context of intensifying competition, including from other African countries.

#### Box 4. Alternative Indicators of External Competitiveness

The most frequently used indicator for external competitiveness is the real effective exchange rate (REER). The REER compares the domestic price level with the price level in the main trading partner countries. Since 1995, Senegal's REER has been constant (Figure 1), indicating that the gains in competitiveness achieved by the devaluation of 1994 have been largely maintained.

Simple measures of real exchange rates are fraught with conceptual and empirical problems. For example, the REER index ignores the effect of changes in the terms of trade on external competitiveness. This effect has often been important for CFA franc countries, and was one of the main forces leading to the devaluation in 1994.<sup>1/</sup> One way to address this shortcoming, following Devarajan (1993)<sup>2/</sup>, is to devise an index that reflects changes in domestic prices relative to exported and imported goods. A fall in export prices or an increase in import prices requires a reduction in the domestic price level to keep the index value constant, that is, to maintain competitiveness. The Devarajan index for Senegal (left figure) shows only marginal losses in competitiveness since 1994, resulting from the inflation pass-through right after the devaluation and falling groundnut prices in later years. The sensitivity of this index to groundnut prices again suggests that Senegal needs to diversify the export structure in order to reduce its vulnerability to adverse developments in markets for its exports (para. 22).

An alternative indicator, developed by Bulir and Lane (2002)<sup>3/</sup>, tracks the share of tradable goods in gross domestic product. Tradables are proxied by value-added in agriculture, mining, and industry. This index (right figure) confirms the previous findings of little change since 1994 in broad measures of competitiveness. The proxy is clearly a rough one, however. For example, it understates the contribution of services (such as tourism, which has been growing fast) but overstates that of agriculture (whose tradables component fluctuates widely, with strong increases in 2000 and 2001). Nonetheless, the measure suggests that Senegal has not been able to permanently increase its export base, in part as a result of persistent structural rigidities.



1/ See Jean Clément et al. (1996): "Aftermath of the CFA Devaluation," IMF Occasional Paper No. 138.

2/ "External Shocks, Purchasing Power Parity, and the Equilibrium Real Exchange Rate," World Bank Economic Review, Vol. 7 No. 1, pp. 45–64.

3/ "Aid and Fiscal Management," IMF Working Paper 02/112. Following Bulir and Lane, the link between the share of tradables and aid-financed spending was also analyzed, but no significant correlation was found.

25. **Senegal's regional integration is also expected to further foster competitiveness** (Box 5). In recent years, Senegal has made important progress in trade reform, particularly with the adoption, in 2000, of the WAEMU common external tariff, which resulted in a substantial reduction in effective external tariff rates. Distortions in the implementation of the tariff relating to the misclassification of certain products seem to have been corrected. Moreover, explicit nontariff barriers (NTBs) have been eliminated, and there are no export taxes.<sup>9</sup>

### **Balance of payments outlook and debt sustainability**

26. **Medium-term balance of payments prospects are favorable.** Following the above-noted temporary widening of the current account deficit (excluding grants) in 2003 to 7.6 percent, the deficit is projected to gradually decline to below 6 percent by 2007 on the strength of ongoing investment into both export capacity and diversification, a recovery in agricultural exports, and assumed stable terms of trade, which implies that export earnings of goods and nonfactor services would grow by close to 6 percent annually. Average growth in nonfood import expenditures of 6.2 percent would accommodate the level of capital goods needed for the projected rise in investment. Private transfers would remain significant (on the order of 4.5 percent of GDP), and foreign direct investment and other private inflows are projected to continue to grow moderately.

27. The remaining **financing needs** would be met by official grants and concessional long-term loans (both program and project loans). During the program period 2003-05, the residual financing requirement of CFAF 65 billion is expected to be covered by policy-based lending from the African Development Bank and the World Bank,<sup>10</sup> and Fund assistance under the requested PRGF arrangement (Table 9). The level of access is within the standard for long-term use of Fund resources and reflects the moderate residual financing need. Senegal has an excellent record in meeting its debt-service obligations to the Fund and, given the projected balance of payments and fiscal positions, is expected to discharge its future obligations in a timely manner.<sup>11</sup>

28. **The dimension of the financing requirement reaffirms the authorities' commitment to a prudent external borrowing policy.** During 2003-05, the authorities will

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<sup>9</sup> Recently eliminated explicit NTBs include various licensing requirements (on imports of used cars, fertilizers, tapes and other goods) and quantitative restrictions (on imports of clothing and automobiles). The Fund's trade restrictiveness index for Senegal was reduced from 5 to 2 at end-2002, and, as a result, Senegal's trade system is classified as "open."

<sup>10</sup> Loans from both institutions are in preparation; for the World Bank, the expected financing is part of the base case of the Bank's new Country Assistance Strategy (para. 5).

<sup>11</sup> Payments to the Fund (after HIPC assistance) in 2003-05 total SDR 74.5 million; annual service to the Fund would average only 1.9 percent of projected exports of goods and nonfactor services.

### Box 5. Regional Aspects of Economic Policy 1/

Senegal is one of eight member states 2/ of the **West African Economic and Monetary Union (WAEMU)**, whose common institutions include the WAEMU Commission in Ouagadougou (Burkina Faso), the Bank of Central African States (BCEAO) in Dakar (Senegal), and the West African Banking Commission in Abidjan (Côte d'Ivoire).

**Monetary policy** is conducted by the BCEAO and aims at supporting the peg of the regional currency, the CFA franc, to the euro. Foreign reserves are pooled at the BCEAO, which deposits 65 percent of the reserves with the French treasury. The BCEAO conducts monetary policy by (i) setting the interest rates for its money market interventions, and (ii) fixing minimum reserve requirements for commercial banks. As the peg does not permit large interest differentials with the euro zone, and in view of the widespread excess liquidity in the banking system, reserve requirements are the more effective policy instrument. Required reserves, which can differ from country to country, are fixed for Senegal at 9 percent of the sum of net foreign assets, short-term credits, and demand deposits.

Monetary policy is complemented by a **macroeconomic convergence exercise** to ensure that the member countries' economic policies do not undermine the BCEAO's objectives. The convergence exercise sets ceilings for the basic fiscal deficit, the stock of public debt, inflation, and government arrears.<sup>3/</sup> In 2002, Senegal is estimated to have missed the debt target by a small margin and its external current account deficit exceeded the ceiling as well; all other convergence criteria were respected (Table 11).

**Banking regulation and supervision** are carried out by the West African Banking Commission. The commission issues instructions to banks and other financial entities (except microfinance institutions, which, thus far, are regulated by the national finance ministries), defines accounting procedures and prudential standards, and sanctions institutions in violation of these standards. The licensing of banks is subject to its prior agreement.

As regards other regional initiatives, the WAEMU member states adopted a **common external tariff** in 2000, with four tariff rates of 0, 5, 10, and 20 percent. The competence for signing **trade agreements** is with the WAEMU Commission, which recently reached a general framework agreement with the United States. The WAEMU Commission also oversees a **program of tax harmonization** that includes common regulations for value-added tax (VAT) and excise taxes. VAT rules include a unified broad base, limited exemptions, defined at the regional level, and a single rate structure in a range of 15-20 percent. Efforts are under way to define a **region-wide investment code**.

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1/ For a comprehensive discussion, see the staff report on the 2002 discussions with West African regional institutions (SM/03/75).

2/ The other members are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, and Togo.

3/ In addition to these four "primary" or binding targets, the WAEMU Commission also tracks a number of "secondary" or indicative targets, such as a ceiling on civil service wages as a percentage of fiscal revenues, or a floor on fiscal revenues as a percentage of GDP.

not tap private nonconcessional foreign financing, which they consider to be costly and inconsistent with their debt strategy.<sup>12</sup> Preliminary calculations indicate that annual growth in export earnings of 4 percent is required to stabilize the net present value (NPV) of external debt at its current level of about 125 percent of exports.<sup>13</sup> This growth rate is well below both (i) average export growth since the 1994 CFA franc devaluation (4.9 percent) and (ii) projected export growth (6.2 percent). The authorities agreed that the debt path implied by the high-case PRSP scenario appeared substantially more risky, as this scenario required more than 6 percent in annual export growth for debt to remain well below critical thresholds.

### **Risks to the external outlook**

29. **The authorities and the staff discussed the main risks to Senegal's external outlook**, including (i) a sustained increase in global petroleum prices,<sup>14</sup> (ii) a drought followed by food shortages, and (iii) heightened political instability in the region, in view of the crisis in Côte d'Ivoire. Regarding the latter, the authorities considered that the economic fallout from the Cote d'Ivoire crisis should continue to be minimal. As for oil prices, they underscored their commitment to the automatic pass-through mechanism for retail petroleum prices, which transferred the price risk fully to consumers.<sup>15</sup> As regards effects of a possible drought, the authorities do not anticipate food shortages in 2003, despite the disappointing 2002 harvest and, as a consequence, have made no specific allocations in the 2003 budget. They noted that private food import markets had developed strongly in the last decade. In the

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<sup>12</sup> In March 2002, Standard and Poor's confirmed the B+ rating for Senegal's sovereign debt. The rating places Senegal on a par with countries like Bulgaria and Romania, and bodes well for Senegal's future access to international capital markets.

<sup>13</sup> These figures are provisional and will be updated as part of a new debt sustainability analysis (DSA), to be carried out when Senegal approaches the completion point under the HIPC Initiative, envisaged for late 2003. Upcoming methodological changes in the compilation of the balance of payments may also lead to a reduction of recorded exports, with a negative effect on the NPV-of-debt-to-exports ratio.

<sup>14</sup> Commodity price shocks and, in particular, oil import price shocks are discussed in the PRSP as a major source of risk to the achievement of the Poverty Reduction Strategy's objectives. Senegal is not, however, a highly oil-dependent economy; a one-year, 30 percent increase in oil prices, even assuming a very inelastic demand, implies an external shock equivalent to 1.2 percent of GDP.

<sup>15</sup> The authorities have also adopted a plan, described in paragraph 54 of the MEFP, to cushion the impact of oil price shocks on the cash flow of the electricity company, SENELEC. Under this plan, if, for example, oil prices were to rise to US\$35/bbl for one full year (implying an annual increase of about 30 percent relative to the baseline forecast), the additional cost to SENELEC of about CFAF 12.4 billion would be covered by additional bank financing (CFAF 3 billion) and a subsidy of CFAF 9.4 billion, fully financed by the net increase in government revenues from ad valorem taxes on petroleum products as a result of higher oil prices (CFAF 10.3 billion). Above this level, however, electricity tariffs would need to be adjusted.

case of an unexpected crisis, they would reallocate budgetary resources toward critical needs and could also rely on the regional food aid arrangement being developed by the Food and Agriculture Organization (FAO).

#### **D. Public Sector Policies**

30. **The medium-term fiscal stance is geared to expanding social and infrastructure services in the context of PRSP implementation, while safeguarding macroeconomic stability and debt sustainability.** The overall fiscal deficit, including grants, is targeted to remain close to 1 percent of GDP (4 percent of GDP with grants excluded) over 2003-05 (Table 6), reflecting a moderate revenue effort (of ½ of 1 percentage point of GDP, raising the tax ratio beyond 18.0 percent of GDP), stable current expenditure in relation to GDP, and an increase in capital spending, as well as outlays for the temporary costs of structural reforms. External financing would be provided in the form of grants, highly concessional loans from multilateral creditors, and external debt relief, while the government would continue to reduce its domestic indebtedness. Senegal would achieve, and maintain throughout the period, compliance with primary and secondary criteria under the WAEMU macroeconomic convergence directives, except for the limit on the external current account deficit (Table 11).

31. **For the medium term, the authorities' priorities of revenue policy** are to (i) consolidate progress in modernizing and strengthening tax and customs administration; (ii) broaden the tax base; and (iii) streamline corporate taxation and the incentive regime for private investment. The government is upgrading revenue administration information technology (IT) systems with a view to improving tax assessment and enforcement, while expanding the coverage of the single taxpayer identification number. The introduction, in 2003, of a synthetic tax for small businesses in lieu of the VAT, the corporate income tax, and the business licensing fee should contribute to bringing the large informal sector into the taxpayer base. In discussing plans for corporate tax reform, including a new investment code for adoption in 2004, the staff agreed that the focus should be on avoiding overly generous incentives and ensuring a transparent, nondiscriminatory tax system for private investment (MEFP, para. 19).

32. **Medium-term expenditure policy will focus on** (i) enhancing the pro-poor emphasis of public spending, especially in primary health, education, and rural infrastructure, in line with the PRSP and commitments made under the HIPC Initiative; and (ii) improving transparency, control, and efficiency in expenditure management. Total expenditures and net lending would increase to an average of about 22½ percent of GDP over 2003-05, on account of higher domestic and foreign-financed capital spending (about 8.3 percent of GDP), accelerated spending of resources under the HIPC Initiative (0.7 percent of GDP, compared with 0.2 percent over the 2000-02 period), and allowances to cover the temporary costs of structural reforms, mainly in the groundnut sector and postal, judicial, and pension systems.

33. **Regarding public expenditure management**, a detailed plan targets improvements in the timeliness, scope and quality of fiscal reporting and in its transparency (MEFP,

paras. 44-47, and Attachment I, Annex I to Appendix I).<sup>16</sup> The focus is on the modernization and integration of budget and treasury systems at all stages of the expenditure management process, from budget authorization to payment, so as to improve monitoring and control of budget execution, including the tracking of pro-poor expenditure (see also Appendix VII for details on the implementation status of the action plan to strengthen the tracking of poverty-reducing spending). The authorities also intend to comply with the WAEMU expenditure management reform program, including the adoption, in March 2003, of the last three remaining WAEMU directives on public accounting and fiscal reporting<sup>17</sup> and, with regard to improved external control, the timely submission by end-2003 of budget execution and treasury accounts to the Supreme Audit Court (Cour des Comptes) and for parliamentary review and approval.

34. The fiscal stance described above does not yet reflect the envisaged implementation, starting in 2004, of a medium-term reform strategy for recruitment and compensation that the authorities intend to develop in 2003, with World Bank assistance. Likewise it does not reflect the possible budgetary implications of plans for large infrastructure projects under public-private partnerships:

- The **medium-term recruitment strategy** aims at alleviating critical shortages of staff in social services, domestic security, and revenue administration.<sup>18</sup> The authorities emphasized that the strategy would be implemented within two boundaries: a wage bill ceiling well below the WAEMU convergence criterion of 35 percent of tax revenue, and a basic fiscal surplus objective of close to 1 percent of GDP. The staff agreed that an increase in civil service employment was appropriate, stressing that the recruitment policy ought to be guided by (i) actual employment needs; (ii) the availability of skilled personnel; (iii) the long-run sustainability of public finances, including the civil service pension system, and (iv) local labor market conditions. Hiring should also be reconciled with the financial implications of **compensation reform**, which would strengthen incentives for efficiency and improved governance by ensuring that civil service compensation for key positions remain attractive relative to private sector employment.

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<sup>16</sup> The plan will be complemented with additional measures based on the findings of a comprehensive expenditure system diagnosis undertaken with World Bank support and scheduled to be completed by mid-2003. The European Union also supports public expenditure management reform efforts, particularly as regards accounting reform, internal and external control, and public procurement.

<sup>17</sup> Implementation of these directives would initially proceed on a test basis, in order to prevent the recurrence of the problems that had led the authorities to increase recourse to exceptional budgetary procedures in early 2002. The authorities are committed to strictly containing their recourse to these procedures from 2003 on.

<sup>18</sup> Since 1994, civil service employment has remained broadly stable, despite a cumulative increase in population of over 25 percent while the ratio of the wage bill to tax revenue (a WAEMU convergence criterion) fell from 55 percent of tax revenue in 1994 to less than 30 percent projected in 2003.

- The staff had extensive discussions with the Private Investment Promotion Agency (APIX) on the status of **plans for large infrastructure projects**.<sup>19</sup> APIX staff indicated that plans for only two projects, an international airport and a toll highway, were well advanced, with a possible launch in 2004 at the earliest. A reputable international firm is said to be interested in the airport project, for which it has undertaken a feasibility study at its own cost. While the authorities remain committed to private development of these projects, some public resource involvement may be required. In this context, the staff noted the long-term quasi-fiscal and governance risks emanating from poorly designed, nonviable large infrastructure projects, as exemplified in the experience of some other countries. The authorities agreed on the need to ensure full transparency and good governance in the preparation and implementation of these projects, including as regards the selection of private partners and contractual arrangements, and they committed themselves to sharing with World Bank and Fund staff all information needed to assess the viability of the projects and their consistency with the economic and financial program (MEFP, para. 34).

### **Fiscal policy in 2003**

35. **In 2003, increased spending in priority areas of the PRSP and outlays for transitory costs of structural reforms would narrow the basic fiscal surplus, including (excluding) the costs of structural reforms and additional HIPC-related spending, to 0.3 percent of GDP (1.5 percent) from 2.2 percent (2.5 percent) in 2002. Total revenue and grants are projected to rise to 21.5 percent of GDP in 2003 from 20.6 percent in 2002**, reflecting in part larger grants, mostly from the EU, and a targeted increase in tax revenues from 17.7 percent of GDP in 2002 to 18 percent in 2003, well above the 17 percent floor in the WAEMU's convergence criteria. The authorities were confident that the revenue objective was well within reach given the ongoing strengthening in collection of VAT and the consolidation of small business taxation. They agreed with the staff that, in the event of substantial revenue shortfalls, partially compensating revenue measures would be called for, as otherwise the efficiency and transparency of budget execution would suffer from lack of predictability and unprioritized cuts.

36. **Total expenditure and net lending are projected to increase to 22.8 percent of GDP in 2003**, compared with 20.2 percent a year earlier. Under the 2003 budget, current expenditures would rise in line with projected nominal growth, reaching 13.1 percent of GDP. Domestically and foreign-financed capital expenditure would increase to 8.2 percent of GDP, from 7.8 percent in 2002, as donors would step up project execution in the context of

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<sup>19</sup> Plans for ten large infrastructure projects, including an airport, ports, roads and mining complexes, to be developed under private-public partnerships, were launched by President Wade shortly after his election in early 2000. APIX, an agency under the President's purview, has been charged with overseeing the development of these projects.



implementing the government's PRSP.<sup>20</sup> The fiscal program also makes provisions for additional spending, estimated at about 1 percent of GDP, covering the costs of structural reforms and budgetary appropriations for additional HIPC-related spending. As estimates for these items firm up,<sup>21</sup> the authorities will specify in more detail the expenditures in a supplementary budget in mid-2003.

**37. The overall fiscal balance, including grants, would shift to a deficit of 1.3 percent of GDP in 2003, from a small surplus of 0.4 percent of GDP in 2002.** Net external financing, consisting of concessional project loans and debt relief under the HIPC Initiative, would reach 1.3 percent of GDP while the government would repay domestic creditors in an amount equivalent to 0.5 percent of GDP.<sup>22</sup> The remaining financing gap of 0.5 percent of GDP would be covered by exceptional financing at concessional terms from the Fund, the World Bank, and the African Development Bank.

### **Public enterprises**

**38. Continuing reforms in the electricity and groundnut sectors, as well as in the postal and pension systems,** seek to remove the fiscal risks emanating from the poor financial performance of these institutions, while addressing critical impediments to the economy's long-term growth and poverty reduction prospects. The authorities have enlisted support from donors, especially the World Bank, to help them design reforms, provide technical assistance and finance transitory costs:

- **Reforms in the electricity sector aim to achieve three interrelated challenges:**<sup>23</sup>
  - (i) improve the electricity parastatal's overall governance and financial performance

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<sup>20</sup> Budget appropriations understate the overall increase in domestically financed capital expenditure, part of which is executed by public agencies (such as the road fund) using funds transferred by the Budget to these entities' accounts at the treasury. The envisaged drawing down in 2003 of unspent funds that accumulated in these accounts during 2002 will be only partially offset by a reduction in the pace of budgetary transfers to these entities, resulting in a consolidated spending increase of about 0.8 percent of GDP.

<sup>21</sup> The authorities project that the costs of groundnut sector and pension and postal systems reforms, including possible recapitalization requirements and severance costs, could reach CFAF 15 billion (0.4 percent of GDP) in 2003, while additional resources under the HIPC Initiative, including part of the carryover from unused resources in 2002, could allow for about CFAF 25 billion (0.6 percent of GDP) in additional spending.

<sup>22</sup> This would include central bank credit, in accordance with the September 2002 WAEMU directive, which requires member governments to repay at least 10 percent of their end-2001 stock of central bank advances every year, beginning in 2003.

<sup>23</sup> The authorities have issued a letter of energy sector policy in April 2003, outlining the main directions of their medium-term reform agenda and updating their 1999 letter of policy. The World Bank staff consider that measures included in this letter of policy provide an adequate basis for achieving the goals of the reforms. As the PRSP had not yet spelled out the key elements of the

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and reduce the associated risks for the government budget; (ii) expand capacity and access to meet the sustained growth in demand; and (iii) reduce electricity costs to support gains in long-term competitiveness.<sup>24</sup> The authorities consider that the privatization of SENELEC is the main instrument to achieve the above goals. However, in light of the current depressed state of the world energy markets and the failures of the last two privatization attempts, a successful privatization transaction will require careful design and choice of timing. In the interim, the authorities intend to seek private and donor financing for an emergency investment program to expand SENELEC's capacity and improve efficiency. In this context, a tender for a concession contract for a private independent power producer (IPP) will be issued in June 2003.<sup>25</sup> Finally, the authorities are also planning a long-term expansion of rural access to electricity, with donor assistance.

- **The authorities consider that reforms in the groundnut sector, including the company's privatization, should enhance long-term prospects for rural, industrial, and export growth.** They intend to put the groundnut parastatal (SONACOS) up for sale before end-July 2003 (MEFP, para. 50). The staff noted that the current plans still offered little specific indications on the broader policy agenda for short- to medium-term reforms. Technical preparations for a detailed sector policy strategy are under way, as a reform committee, with World Bank and EU participation, is focusing on agricultural, regulatory, marketing, and tariff reforms. Concurrently, a privatization advisor, recruited under a World Bank project, is drafting a privatization strategy for government consideration in June 2003.<sup>26</sup>

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energy reform policy, the government has presented these at public fora in early March and considered the feedback in formulating its final policy.

<sup>24</sup> For 2003, the recent coming onstream of the Manantali hydropower project in Mali and the upgrade of 30 megawatts of local capacity should allow SENELEC to meet demand and reduce unit costs, with the latter goal contingent on petroleum prices not widely and persistently exceeding the company's forecast average of US\$27 per barrel. This expected improvement should also allow the company to gain access to adequate commercial bank financing and normalize its relations with creditors and suppliers.

<sup>25</sup> The coming onstream of this IPP, by late 2004, would bring to about 40 percent the share of electricity generation outside of SENELEC's management.

<sup>26</sup> Discussions also covered significant risks to achieving policy goals in the sector, particularly with respect to the privatization process. In addition to measures to address pre-privatization risks to corporate governance (MEFP, para. 51), the authorities indicated that the sharp drop in groundnut output in 2002 and associated risks of a critical shortage of seeds might compromise the privatization plan. The rural poor would also be affected. The government is working with the National Groundnut Sector Committee (CNIA) on a plan, with possible World Bank and EU support, to ensure adequate seed capital for next year's crop.

- **Further reforms of the postal system aim to reduce risks to the fiscal stance, place the postal service on a sustainable financial footing, and broaden access to postal payment and savings instruments by the rural poor.** The strategy, described in a letter on postal sector policy published in February 2003, entails the corporatization of the financial services group into an autonomous unit, and its regulation and supervision as a full-fledged financial institution.<sup>27</sup> Concerning the financial position of the postal service in the short term, the authorities included in the 2003 government budget a subsidy to pay for the universal service obligations; they have also inventoried cross debts accumulated since 1996 between the treasury and the postal service with a view to clearing net positions. The postal service's correspondent account at the treasury will continue to be closely monitored until the separation of financial services, when it will be closed.
- **The authorities consider that recent reforms in the civil service pension system (FNR) have come a long way toward addressing medium-term financial imbalances, and they plan to extend them to the private sector pension company, IPRES.** Other medium-term challenges include the strengthening of the governance and management structures at IPRES, and the recapitalization of its fund by the government to cover contribution arrears from liquidated public enterprises and other defaulting public entities. While agreeing that the civil service and private sector pension systems would remain financially healthy in the foreseeable future, the staff urged the authorities to consolidate the progress achieved thus far through further parametric reforms that would ensure long-term financial sustainability.<sup>28</sup>

#### **E. Monetary and Financial Sector Issues**

39. **Monetary policy will continue to be framed in the context of Senegal's participation in the WAEMU regional monetary arrangement.** The Senegalese authorities support the BCEAO's monetary policy goals of low inflation and an increase in foreign reserves. Senegal's net foreign assets position at the BCEAO is targeted to strengthen over 2003-05, with a cumulative increase equivalent to 14 percent of the end-2002 money stock. Money is projected to increase by close to 9 percent per year, broadly in line with nominal GDP, and net credit to government would decline cumulatively over the period by

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<sup>27</sup> The authorities indicated that the capitalization of the newly created financial services unit would require a budgetary transfer, which could be financed under a World Bank policy reform loan. They stressed, however, that they would seek to arrange private sector participation both to reduce the financial burden of the capitalization for the state and to ensure better governance. The net worth of the postal system is currently estimated to be negative in an amount of about 1 percent of GDP.

<sup>28</sup> The staff also pointed out that, as short-term financial problems had served as a trigger for needed reforms, the favorable medium-term impact of the authorities' planned recruitment policy on the FNR's cash position might significantly reduce the impetus for further reforms, even though, without such reforms, the FNR's long-term financial position would worsen.

7 percent of end-2002 money stock, leaving sufficient scope for growth of credit to the private sector (9–10 percent per year).

40. **As regards the soundness of the banking system, the authorities noted that Senegal's banking system continued to be in generally good health** (Appendix VIII). They considered that the persistent problems with excessive risk concentration and maturity mismatch were deeply structural, the consequence of a narrow domestic credit market and limited long-term savings by the public in bank instruments, and, therefore, required the continued strict supervision of banks.

41. **The authorities are aware that financial deepening is impeded by poor contract enforcement, the absence of minimum accounting standards for small and medium-sized enterprises, and a lack of information sharing on creditors between banks.** They support the recommendations of the Financial System Stability Assessment (SM/01/272, 8/24/01), especially with respect to strengthening the training of judges in commercial and financial law, and enhancing the prudential framework for microfinance, in view of the sector's fast growth<sup>29</sup> and its role in broadening the poor's access to credit. In this regard, the authorities are preparing a sector strategy paper that should more clearly define the roles and responsibilities of public agencies in charge of supervision and sector development (MEFP, para. 48).

#### F. Private Sector Policies

42. **The authorities are determined to improve the administrative, regulatory and judicial environment for private sector activity** (MEFP, paras. 59-61). A multiyear judicial reform program is in preparation, with the assistance of donors, that aims at strengthening the functioning of the judicial system and upgrading its resources. The FIAS-supported action plan to improve the administrative environment for private investment will be considered by the cabinet in April 2003, together with a policy paper on private sector development. The staff urged the authorities to implement this plan in a coherent and systematic manner, and to continue to solicit broad private sector feedback in the course of its implementation. As regards the labor market, the authorities view regulation as generally flexible and supportive of the goal of enhancing Senegal's long-term external competitiveness. In response to private sector concerns, however, they are examining current provisions that may inhibit foreign investment, in particular those governing piece-rate compensation and work-shift schedules.

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<sup>29</sup> Deposits in microfinance institutions have been growing at rates of 30-40 percent per year. There are about 600 registered institutions. While the total volume of assets in the sector is still small compared with banks (Appendix VIII, Table 3), about 20 percent of households have deposits in microfinance institutions, which is more than twice the number of households with deposits at commercial banks.

### G. Statistical Issues

43. **Overall, Senegal's economic database is adequate, allowing staff to conduct effective surveillance of economic policies and to monitor program developments.** Senegal participates in the General Data Dissemination System (GDDS), and its metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 2001. The authorities are regularly providing core data to the Fund. They collaborated in the preparation of a Report on the Observance of Standards and Codes (ROSC) on the data module and agreed to its publication on December 2, 2002. The report identified weaknesses in the national accounts, especially the measurement of informal sector output—although the new national accounts compilation according to the 1993 System of National Accounts (SNA) methodology should partly alleviate this problem. Other shortcomings concern the timeliness and scope of balance of payments data as well as the periodicity of government financial operations data, whose accuracy and coverage also suffer from the absence of an integrated accounting source. The authorities are committed to improving the quality and availability of their databases, starting with the institutional foundations for the production and dissemination of statistics. In this regard, the authorities consider that the setting up of an autonomous National Statistical Institute, upon the recommendation of an April 2001 STA mission, should allow national and technical assistance resources to be used more efficiently. The institute is scheduled to open by mid-2003 (MEFP, paras. 62-3).

### IV. PROGRAM MONITORING AND RISKS

44. **To monitor the implementation of the program, quantitative and structural performance criteria, quantitative indicators, and structural benchmarks are specified, together with prior actions, in Tables 1 and 3 of the technical memorandum of understanding** (Appendix I, Attachment I, Annex II). The first test date will be end-June 2003, and the first review of the program is scheduled for completion by end-October 2003.

45. The program is subject to a number of risks:

- An uncertain global environment raises the likelihood of **large and negative external shocks**, notably, high petroleum prices over a sustained period. In this case, to avoid putting undue burdens on the public finances and on SENELEC, the government would need to adhere to the plan described in paragraph 54 of the MEFP.<sup>30</sup> More generally, in the event that the terms of trade deviate significantly from the underlying assumptions, the authorities and the staff need to reassess the policies envisaged under the program.

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<sup>30</sup> The plan includes, importantly, an adjustment of domestic electricity prices outside of the standard regulatory price-setting cycle for the year. Close monitoring of the financial and operational performance of SENELEC, coupled with the readiness to take corrective action if necessary, will be required in all circumstances.

- Attaining the tax revenue target for 2003 implies a nontrivial revenue collection effort. Moreover, the disbursement of budget grants from the EU equivalent of 0.8 percent of GDP is conditional upon the implementation of several reforms, notably in the area of public expenditure management (where delays in implementation stalled disbursements in 2002). Should tax receipts remain behind projections, or should EU financing fall short of programmed amounts as a result of delayed reforms, the authorities will need to adopt offsetting measures.
- The **resolve to implement structural reforms** in the groundnut and electricity sectors could weaken. Vested interests have blocked or delayed reforms in these areas in the past.

## V. STAFF APPRAISAL

46. **In recent years, economic policies in Senegal have been characterized by small fiscal deficits and slow, frequently stalling progress on key structural reforms. The fiscal stance, complemented by the cautious monetary policy of WAEMU, has underpinned the exchange rate anchor, delivered low inflation, and enhanced the economy's ability to cope with shocks. However, slippages in structural reforms have prevented Senegal from realizing its growth potential and its poverty reduction goals.** Also in 2002 Senegal stayed this course: notwithstanding the weather-related drop in economic growth in 2002 below the recent years' rate of 5 percent, the government adhered to fiscal consolidation, cutting nonpriority expenditure when the tax revenue target became out of reach. Regrettably, HIPC Initiative-related spending was not boosted as envisaged, and its tracking remained weak. The operations of SENELEC and SONACOS improved. Nonetheless, little headway was made in preparing reforms that would have put the energy and groundnut sectors on a sound footing.

47. The PRSP recognizes that strong, broad-based and more equitable growth requires higher and more efficient spending on infrastructure and social services, with emphasis on rural areas, complemented by reforms that strengthen competitiveness and public governance. **The staff welcomes the authorities' decision to focus the economic program for 2003-05 on (i) public sector reforms that institutionally strengthen the effectiveness and transparency of expenditures and increase the share of priority outlays, and (ii) selective sector and regulatory reforms that improve conditions for the private sector.** Tangible results along this path will complete the institutional foundation for prudent public finances and help reduce production costs, both of which are crucial for triggering the projected private investment.

48. **The fiscal trajectory for 2003-05 responds to the need for more and improved government services in the priority areas of the PRSP,** against the backdrop of conservative assumptions about implementation and debt service capacity. Orderly execution of the spending plans will require a more determined revenue effort than in recent years, when expenditure targets were sacrificed to compensate for tax revenue shortfalls.

49. Meeting the tax revenue target in 2003 may require additional tax measures, which should be consistent with the **medium-term objective of having a more efficient, transparent, and business-friendly tax system**. While the adoption of the synthetic tax in 2003 constitutes a start in broadening the tax base by tapping revenue in the large informal sector, it will be critical that the reforms in business taxation—including the revision of the investment code—not only result in greater transparency but also avoid granting generous favors to investors that end up eroding the government’s revenue-raising capacity. Aligning investment incentives with the WAEMU investment code under preparation would signal Senegal’s commitment to regional integration and contain the risk of “a race to the bottom.”

50. The staff welcomes the increased emphasis on basic social services and rural infrastructure in the government’s spending plans. A stronger capability to measure spending results will be essential for optimizing policy design and execution, and soliciting sustained donor support. Given the weak tracking of HIPC Initiative-related outlays to date, it is critical that the authorities implement more forcefully Fund and World Bank staff recommendations in this area. More broadly, **as far as transparency, efficiency, and control of expenditure management is concerned, the staff believes that the government’s current program for increasing transparency of the expenditure process, which is to be followed by an overhaul of procedures for investment budget execution, should allow for better informed decisions and raise the bar for the quality of governance**. Recourse to exceptional budgetary procedures, which became a dominant feature of budget execution in 2002, needs to be avoided. Stronger accountability and transparency also imply that the authorities follow through on their commitment to reduce the backlog in the submission of budget execution and treasury accounts for external audit and parliamentary review.

51. Two policy issues under consideration by the authorities—**government employment and large infrastructure projects under private-public partnership**—need to be carefully reconciled with the program’s fiscal and macroeconomic stance. Hiring plans for the medium term should reflect requirements in the priority areas, as well as sustainability considerations. If plans for the large infrastructure projects firm up in the course of the program period, they need to meet the tests of financial and technical viability, transparency, and good governance, and be consistent with a sound macroeconomic path. Close collaboration among the government and the staffs of the World Bank and the Fund in these assessments is essential.

52. **The staff supports the government’s reform strategies in the electricity and groundnut sectors, as well as in the postal, and public and private pension systems**. All of these will reduce the risk of adversely affecting the government budget. Moreover, an expanded supply of electricity at lower cost, as well as a more efficient organization of the groundnut sector, will enhance growth prospects and improve conditions for the poor.

53. Regarding the **financial sector**, the treasury’s approach to cash management should support the development of a paper market. Continued strict supervision of banks must remain a priority to forestall problems related to the limited scale and the structure of the banking sector. One urgent step toward financial deepening is the expeditious upgrading of the judiciary. This step needs to be complemented by prudential and other, yet to be refined,

reforms that will help link fragmented financial markets and foster the territory-wide supply of financial services.

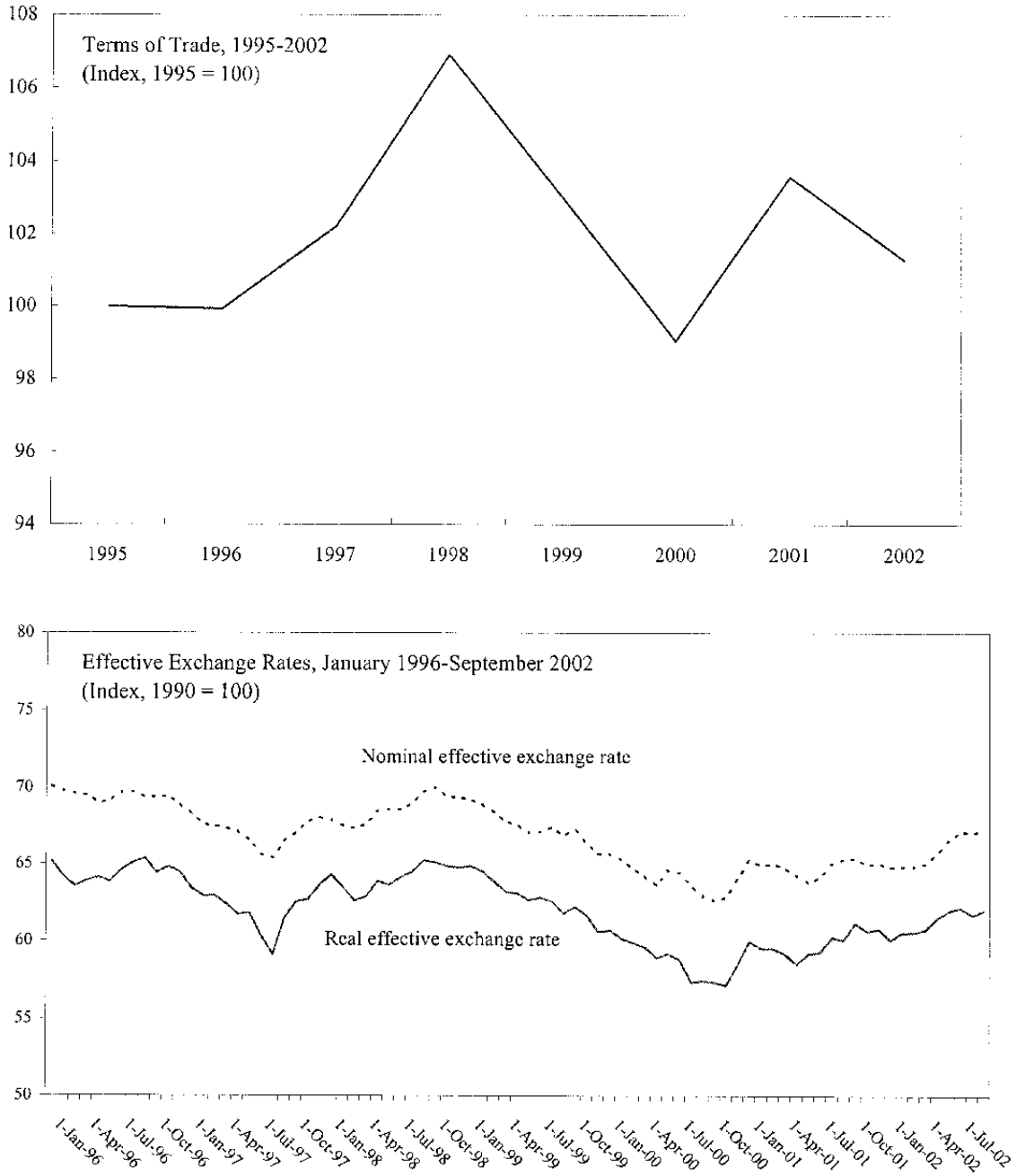
54. The staff welcomes the authorities' **plans to follow up on the recommendations of the recent data ROSC**. The adoption of the new national accounts methodology, as well as the planned creation of the National Statistical Institute, are steps in the right direction.

55. **The proposed program reflects the authorities' intention to finish long-standing reform agendas, as well as their persistent commitment to prudent financial policies, which they also maintained after the expiration of the last arrangement in April 2002. The manner in which the program was put together attests to the authorities' increased ownership.** Risks to the program from external shocks seem manageable, while uneven commitment to implementation—heightened by the fact that some structural policies have not yet been fully defined—cannot be ruled out. Nevertheless, the staff believes that the risk of moving ahead, in the absence of specific plans but with agreement on the direction of these few reforms, needs to be balanced by the government's determination to proceed with the implementation of their PRSP in the context of a Fund-supported program. Progress on this path will also lead to the completion point of the enhanced HIPC Initiative. In light of these considerations, as well as the recent track record of policies and prior actions, **the staff recommends approval of the authorities' request for a new three-year PRGF arrangement and the extension of additional interim assistance under the enhanced HIPC Initiative until December 31, 2003.**

56. It is proposed that the next Article IV consultation with Senegal take place on the 24-month cycle.

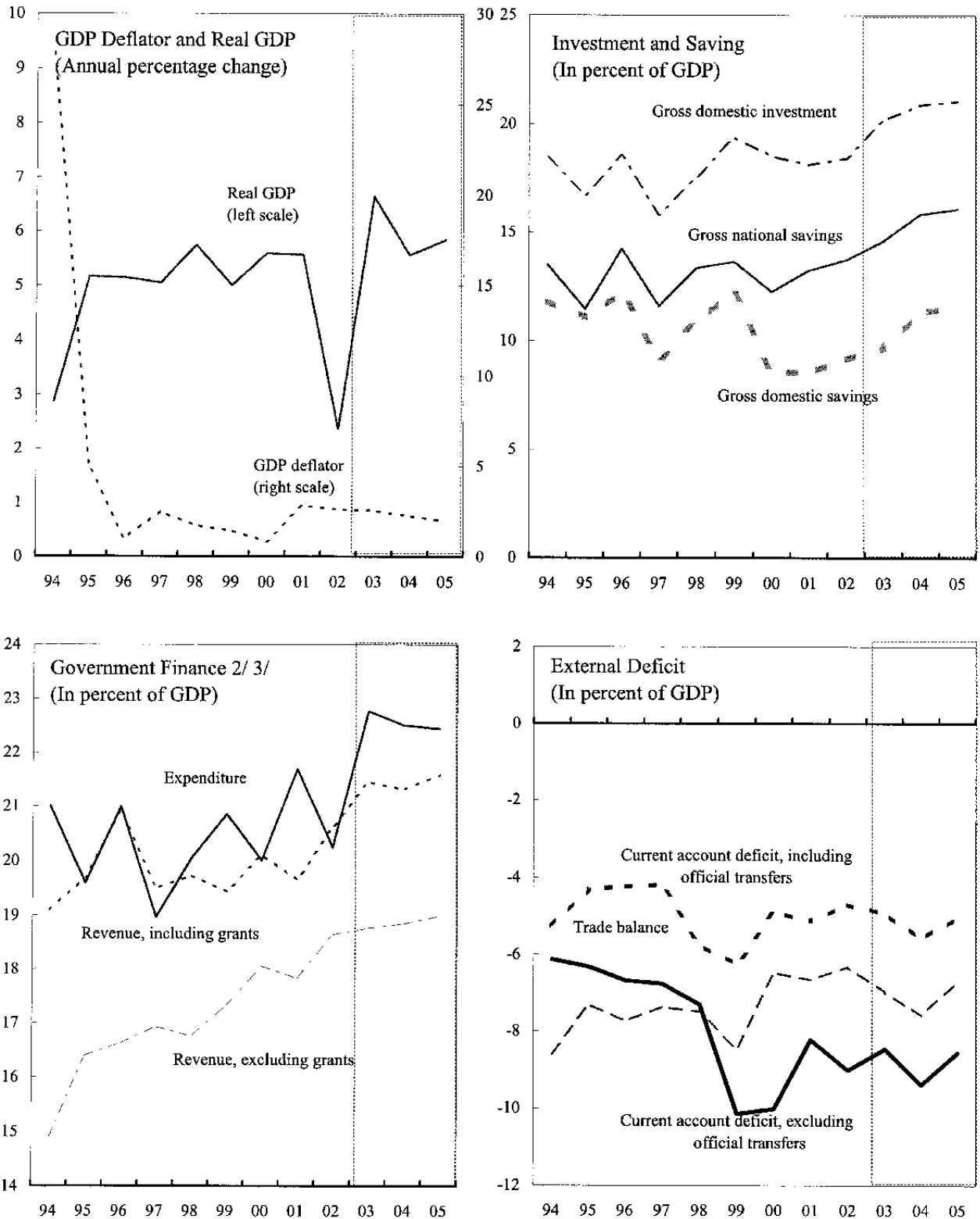


Figure 1. Senegal: Terms of Trade and Effective Exchange Rates



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

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



Sources: Senegalese authorities; and staff estimates and projections.

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

2/ Central government on a commitment basis.

3/ The series on grants and foreign-financed capital expenditure were revised from 1996 onward to take into account available foreign financing.

Table 1. Senegal: Fund Position During the Period of the PRGF Arrangement, 2003-06

	2003					2004					2005					2006	
	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	Total	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	Total	Jan.- Mar.	Apr.- June	Jul.- Sep.	Oct.- Dec.	Total	Jan.- Mar.	Apr.- June
(In millions of SDRs)																	
Disbursements under Poverty Reduction and and Growth Facility (PRGF) 1/	0.0	3.5	0.0	3.5	6.9	0.0	3.5	0.0	3.5	6.9	0.0	3.5	0.0	3.5	6.9	0.0	3.5
IMF interim assistance	0.0	1.4	1.9	1.8	5.1	1.9	2.3	1.9	2.3	8.5	2.0	2.5	2.0	2.0	8.5	1.4	1.0
Repurchases/repayments	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural Adjustment Facility (SAF)/PRGF and Stand-by Arrangement (SBA)	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0
Charges and interests	0.1	0.6	0.1	0.5	1.3	0.1	0.5	0.1	0.4	1.2	0.1	0.4	0.1	0.4	1.0	0.1	0.3
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	0.0	0.4	0.0	0.4	0.9	0.0	0.4	0.0	0.3	0.7	0.0	0.3	0.0	0.3	0.5	0.0	0.2
SDR charges	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1
Total Fund credit outstanding (end of period)	178.2	176.2	168.5	164.8	164.8	157.1	151.6	144.0	138.4	138.4	131.0	125.4	118.1	114.2	114.2	106.8	105.3
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	178.2	176.2	168.5	164.8	164.8	157.1	151.6	144.0	138.4	138.4	131.0	125.4	118.1	114.2	114.2	106.8	105.3
(In percent of quota)																	
Total Fund credit outstanding (end of period)	110.1	108.9	104.2	101.8	101.8	97.1	93.7	89.0	85.5	85.5	81.0	77.5	73.0	70.6	70.6	66.0	65.1
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF	110.1	108.9	104.2	101.8	101.8	4.7	93.7	89.0	85.5	85.5	81.0	77.5	73.0	70.6	70.6	66.0	65.1
Quota	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8

Sources: International Monetary Fund, Treasurer's Department; and staff projections.

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

Table 2. Senegal: Schedule of Projected Reviews and Disbursements  
Under the PRGF Arrangement, 2003–06

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

Table 3. Senegal: Selected Economic and Financial Indicators, 2000-05

	2000	2001	2002		2003	2004	2005
			(EBS/02/50)	Est.			
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	5.6	5.6	5.0	2.4	6.6	5.6	5.8
<i>Of which</i> : nonagriculture GDP	4.2	4.7	5.7	5.0	5.7	5.6	5.9
GDP deflator	0.8	2.8	2.8	2.6	2.5	2.2	2.0
Consumer prices							
Annual average	0.7	3.0	2.3	2.2	2.0	1.8	2.0
End of period	1.3	3.9	2.0	0.5	2.0	1.8	2.0
External sector							
Exports, f.o.b. (in CFA francs)	1.6	12.3	7.8	4.1	1.6	8.2	6.3
Imports, f.o.b. (in CFA francs)	12.6	10.0	5.3	3.7	7.8	4.9	6.4
Export volume	-4.5	11.6	8.1	6.6	-0.5	6.3	5.1
Import volume	2.1	13.7	6.8	3.8	7.8	4.6	5.2
Terms of trade (deterioration -)	-3.9	4.6	1.1	-2.2	1.9	1.5	-0.2
Nominal effective exchange rate	-5.1	1.2	...	4.9	...	...	...
Real effective exchange rate	-6.5	1.9	...	2.9	...	...	...
(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Money and credit							
Net domestic assets	12.8	4.3	4.7	-3.9	5.7	2.6	4.3
Domestic credit	15.5	6.6	4.7	-4.8	6.4	3.3	5.0
Credit to the government (net)	-4.0	2.7	-2.7	-8.2	-0.3	-3.6	-2.2
Credit to the economy (percentage growth)	28.6	4.9	10.2	4.7	9.5	9.8	10.1
Broad money (M2)	10.7	14.5	7.9	8.3	8.8	9.2	8.6
Velocity (M2/GDP; end of period)	3.9	3.7	3.7	3.6	3.6	3.6	3.6
Interest rates (end of period; in percent)							
Discount rate	6.50	6.50	...	6.50	...	...	...
Money market rate	4.95	4.95	...	4.95	...	...	...
(In percent of GDP)							
Government financial operations							
Revenue	18.1	17.8	18.6	18.6	18.8	18.8	19.0
Grants	2.1	1.8	2.2	2.0	2.7	2.5	2.6
Total expenditure and net lending 1/	20.0	21.7	21.2	20.2	22.8	22.5	22.4
Overall fiscal surplus or deficit (-) 2/							
Commitment basis, excluding grants	-2.0	-3.9	-2.6	-1.6	-4.0	-3.7	-3.5
Commitment basis, including grants	0.1	-2.0	-0.4	0.4	-1.3	-1.2	-0.9
Basic fiscal balance 3/	1.2	-0.8	1.3	2.2	0.3	0.7	0.7
Gross domestic investment	18.5	18.1	18.8	18.4	20.2	20.9	21.0
Gross domestic savings	8.6	8.6	10.8	9.1	9.7	11.3	11.6
Gross national savings	12.3	13.2	13.7	13.7	14.6	15.8	16.1
External current account deficit (-)							
Excluding current official transfers	-8.5	-6.5	-6.7	-6.3	-7.6	-6.7	-6.6
Including current official transfers	-6.3	-4.9	-5.1	-4.7	-5.6	-5.0	-5.0
Domestic public debt	8.7	9.8	7.4	7.6	7.0	6.2	5.7
External public debt 4/	69.3	65.2	53.5	63.0	45.9	44.7	42.8
(In percent of exports of goods and nonfactor services, unless otherwise indicated)							
External public debt service 5/	12.5	9.3	9.8	9.2	8.8	7.9	7.3
In percent of government revenue	20.7	15.8	15.2	14.8	13.1	11.7	10.5
GDP at current market prices (in billions of CFA francs)	3,114.0	3,379.7	3,648.1	3,549.6	3,881.1	4,188.4	4,519.6

Sources: Senegalese authorities; and staff estimates and projections.

1/ Includes foreign-financed capital expenditure.

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

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

4/ Projection assumes a reduction in the stock of debt in 2003 owing to Senegal's reaching the completion point under the HIPC Initiative.

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

Table 4. Senegal: Medium-Term Savings-Investment Balances and National Accounts, 2000-07

	Weight in Nom. GDP (In percent)	2000	2001	2002		2003	2004	2005	2006	2007
				(EBS/02/50)	Est.					
(Annual percentage change at constant prices, unless otherwise indicated)										
Primary sector	17.6	10.6	7.6	-2.6	-14.0	10.8	4.5	4.8	5.2	5.5
Agriculture	8.2	21.3	13.8	-0.4	-21.2	18.0	5.0	5.5 ...	...	...
Livestock	6.7	3.1	3.2	-7.7	-7.7	4.0	4.2	4.2 ...	...	...
Fishing	2.1	-4.5	-6.5	2.1	0.7	3.3	3.5	3.5 ...	...	...
Forestry	0.6	1.3	1.9	2.5	2.5	2.5	3.0	3.0 ...	...	...
Secondary sector	20.5	6.1	6.1	8.3	10.1	7.9	6.2	6.3	6.5	6.6
Mining	0.3	-0.9	-5.4	11.0	-5.9	18.3	7.9	4.0 ...	...	...
Industry	13.1	5.2	5.1	5.8	11.1	6.8	5.3	5.6 ...	...	...
Oil milling	0.5	49.5	6.1	20.9	-6.5	-21.4	7.7	3.9 ...	...	...
Energy	1.8	6.6	10.3	8.3	4.9	13.5	6.8	6.1 ...	...	...
Construction and public works	4.7	4.4	7.8	12.9	12.9	11.9	8.0	8.4 ...	...	...
Tertiary sector	61.9	4.0	4.8	6.3	4.8	5.1	5.6	5.9	5.9	5.9
Transportation and telecommunication	12.1	8.0	6.4	7.5	7.6	7.2	7.9	8.2 ...	...	...
Commerce	21.9	2.1	5.6	5.9	4.4	5.4	5.0	5.0 ...	...	...
Public administration	8.8	5.5	0.8	11.7	4.3	2.7	4.0	5.0 ...	...	...
Other	19.2	2.9	4.5	3.5	3.5	4.4	5.4	5.8 ...	...	...
GDP	100.0	5.6	5.6	5.0	2.4	6.6	5.6	5.8	6.0	6.0
Nonagriculture GDP	91.8	4.2	4.7	5.7	5.0	5.7	5.6	5.9	6.0	6.0
GDP deflator	...	0.8	2.8	2.8	2.6	2.5	2.2	2.0	2.0	2.0
Consumer price index (period average)	...	0.7	3.0	2.3	2.2	2.0	1.8	2.0	2.0	2.0
(In percent of GDP)										
Gross domestic investment	...	18.5	18.1	18.8	18.4	20.2	20.9	21.0	21.4	21.7
Government 1/	...	6.2	6.4	7.7	7.8	8.7	8.9	8.7	8.8	8.8
Nongovernment	...	12.3	11.7	11.1	10.6	11.5	12.0	12.3	12.6	12.9
Gross domestic savings	...	8.6	8.6	10.8	9.1	9.7	11.3	11.6	12.4	13.0
Government	...	5.9	3.3	6.4	7.2	6.3	6.7	6.6	6.9	6.9
Nongovernment	...	2.7	5.2	4.3	1.9	3.4	4.6	4.9	5.5	6.1
Investment - savings balance	...	-9.9	-9.6	-8.1	-9.3	-10.5	-9.6	-9.5	-9.0	-8.7
Government	...	-0.3	-3.1	-1.3	-0.5	-2.4	-2.2	-2.1	-1.9	-1.9
Nongovernment	...	-9.6	-6.5	-6.8	-8.7	-8.1	-7.4	-7.4	-7.1	-6.8
External current account balance 2/	...	-6.3	-4.9	-5.1	-4.7	-5.6	-5.0	-5.0	-4.7	-4.7
Gross national savings 2/	...	12.3	13.2	13.7	13.7	14.6	15.8	16.1	16.7	17.0
Memorandum items: (In billions of CFA francs, unless otherwise indicated)										
Real growth in private consumption (in percent)	...	9.0	2.4	...	6.1	5.0	4.2	5.2	5.4	5.2
GDP at current prices	...	3,114.0	3,379.7	3,648.1	3,549.6	3,881.1	4,188.4	4,519.6	4,884.3	5,280.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ Includes unallocated HIPC Initiative expenditure.

2/ Includes current transfers.

Table 5. Senegal: Government Financial Operations, 2000-05

(In billions of CFA francs)

	2000	2001	2002		2003	2004	2005
			(EBS/02/50)	Est.			
Total revenue and grants	626.3	664.4	759.8	731.9	832.6	892.6	975.7
Revenue	562.3	602.7	678.3	662.0	728.3	789.5	858.1
Tax revenue	537.3	576.8	661.8	627.3	698.5	760.0	826.8
Nontax revenue 1/	25.0	25.9	16.5	34.7	29.8	29.5	31.3
Grants	64.0	61.7	81.5	69.9	104.4	103.1	117.6
Budgetary	14.1	0.0	6.5	1.9	29.4	18.1	22.6
Budgeted development projects	49.9	61.7	75.0	68.0	75.0	85.0	95.0
Total expenditure and net lending	623.1	733.0	772.7	718.7	883.6	942.8	1,014.3
Current expenditure	411.0	516.6	476.6	462.4	509.8	544.2	592.8
Wages and salaries	175.8	177.3	198.0	199.4	207.4	225.9	249.3
Interest due 1/	45.3	30.3	40.1	38.1	38.9	38.1	38.8
Of which: external 2/	39.6	23.7	31.1	33.9	30.6	30.4	30.5
Other current expenditure	189.9	309.0	238.5	224.9	263.5	280.3	304.7
Transfers and subsidies	92.9	178.5	113.6	...	131.0	135.2	145.9
Goods and services	97.0	130.5	124.9	...	132.5	145.1	158.9
Capital expenditure	193.2	217.2	271.2	275.7	318.1	349.5	375.3
Domestically financed	106.6	118.5	143.7	148.2	168.1	183.0	204.0
Externally financed 3/	86.6	98.7	127.5	127.5	150.0	166.5	171.3
Treasury special accounts and correspondents (net)	14.0	3.8	4.0	-19.1	8.0	-3.0	-3.0
Net lending	4.9	-4.6	7.0	-0.3	8.0	8.0	8.0
Additional HIPC Initiative expenditures (to be identified)	...	...	13.9	...	24.7	29.1	26.1
Temporary costs of structural reforms	0.0	0.0	0.0	0.0	15.0	15.0	15.0
Overall fiscal balance (including grants)	3.2	-68.6	-12.9	13.2	-51.0	-50.2	-38.6
Overall fiscal balance (excluding grants)	-60.8	-130.3	-94.4	-56.7	-155.4	-153.3	-156.2
Excluding trans. costs of structural reforms and HIPC Initiative	-56.6	-124.7	-62.7	-46.6	-107.9	-109.3	-115.1
Basic fiscal balance 4/	37.2	-25.9	48.1	78.8	10.6	29.2	31.1
Excluding temp. costs of structural reforms and HIPC Initiative	41.4	-20.3	79.8	88.9	58.1	73.2	72.2
Financing	-3.2	68.6	12.9	-13.2	51.0	50.2	38.6
External financing	17.1	54.9	64.2	66.9	50.2	64.5	59.4
Drawings	78.1	103.3	116.8	109.6	91.0	97.5	92.3
Treasury	37.1	60.6	49.3	42.2	0.0	0.0	0.0
Project loans	41.0	42.7	67.5	67.5	91.0	97.5	92.3
Amortization due	-65.2	-64.2	-74.1	-79.4	-65.5	-62.1	-59.0
Debt relief and HIPC Initiative interim assistance 5/	4.2	15.8	21.5	36.7	24.7	29.1	26.1
Domestic financing	-21.1	17.4	-51.3	-76.5	-19.1	-46.5	-33.4
Banking system	-28.3	21.8	-24.6	-74.3	-2.5	-38.2	-25.4
Of which: issuance of new treasury bills	...	...	...	...	23.0	12.0	23.5
Nonbank financing	7.2	-4.4	-26.7	-2.2	-16.6	-8.3	-8.0
Of which: privatization	2.9	-44.1	1.1	1.1	1.1	1.1	1.1
Errors and omissions	0.8	-3.7	0.0	-3.6	0.0	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	0.0	19.9	32.3	12.6
Memorandum items:							
HIPC Initiative expenditure	4.2	5.6	31.7	10.1	32.4	29.1	26.1
Current and capital social expenditure 7/ 8/							
Education	112.6	117.8	124.2	...	...	...	...
Health	31.6	38.0	41.1	...	...	...	...
Military spending 9/	44.4	50.5	51.6	...	...	...	...
Gross domestic product	3,114.0	3,379.7	3,648.1	3,549.6	3,881.1	4,188.4	4,519.6

Sources: Senegalese authorities; and staff estimates and projections.

1/ Starting in 2003, interest due on domestic debt is gross and interest received on deposits with the central bank is recorded as nontax revenues.

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

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

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

5/ Includes from 2000 onward interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank, and the Paris Club. Revised 2002 figure includes the deferral of debt payments to Paris Club creditors in anticipation of a HIPC Initiative completion point in 2003.

6/ Before external budgetary assistance under a possible Poverty Reduction and Growth Facility-supported program.

7/ Excludes undistributed expenditures on account of HIPC Initiative debt relief in 2002 and 2003.

8/ Excludes externally financed capital expenditure and unallocated HIPC Initiative spending.

9/ Defense budget figures.

Table 6. Senegal: Government Financial Operations, 2000-05

	2000	2001	2002		2003	2004	2005
			(EBS/02/50)	Est.		Proj.	
(In percent of GDP)							
Total revenue and grants	20.1	19.7	20.8	20.6	21.5	21.3	21.6
Revenue	18.1	17.8	18.6	18.6	18.8	18.8	19.0
Tax revenue	17.3	17.1	18.1	17.7	18.0	18.1	18.3
Nontax revenue 1/	0.8	0.8	0.5	1.0	0.8	0.7	0.7
Grants	2.1	1.8	2.2	2.0	2.7	2.5	2.6
Total expenditure and net lending	20.0	21.7	21.2	20.2	22.8	22.5	22.4
Current expenditure	13.2	15.3	13.1	13.0	13.1	13.0	13.1
Wages and salaries	5.6	5.2	5.4	5.6	5.3	5.4	5.5
Interest payments 1/	1.5	0.9	1.1	1.1	1.0	0.9	0.9
Goods and services	3.1	3.9	3.4	...	3.4	3.5	3.5
Transfers and subsidies	3.0	5.3	3.1	...	3.4	3.2	3.2
Capital expenditure	6.2	6.4	7.4	7.8	8.2	8.3	8.3
Domestically financed	3.4	3.5	3.9	4.2	4.3	4.4	4.5
Externally financed 2/	2.8	2.9	3.5	3.6	3.9	4.0	3.8
Treasury special accounts and correspondents (net)	0.4	0.1	0.1	-0.5	0.2	-0.1	-0.1
Net lending	0.2	-0.1	0.2	0.0	0.2	0.2	0.2
Additional HIPC Initiative expenditures (to be identified)	...	...	0.4	...	0.6	0.7	0.6
Temporary costs of structural reforms	0.0	0.0	0.0	0.0	0.4	0.4	0.3
Overall fiscal balance							
Commitment basis, excluding grants	-2.0	-3.9	-2.6	-1.6	-4.0	-3.7	-3.5
Commitment basis, including grants	0.1	-2.0	-0.4	0.4	-1.3	-1.2	-0.9
Commitment basis, excluding grants, temporary costs of structural reforms, and HIPC Initiative expenditure	-1.8	-3.7	-1.7	-1.3	-2.8	-2.6	-2.5
Basic fiscal balance 3/	1.2	-0.8	1.3	2.2	0.3	0.7	0.7
Basic fiscal balance, excluding temporary costs of structural reforms and HIPC Initiative expenditure	1.3	-0.6	2.2	2.5	1.5	1.7	1.6
Memorandum items:							
(In units indicated)							
HIPC Initiative expenditure (in percent of GDP)	0.1	0.2	0.9	0.3	0.8	0.7	0.6
Wages and salaries (in percent of tax revenue)	32.7	30.7	29.9	31.8	29.7	29.7	30.1
Gross domestic product (in billions of CFA francs)	3,114.0	3,379.7	3,648.1	3,549.6	3,881.1	4,188.4	4,519.6

Sources: Senegalese authorities; and staff estimates and projections.

1/ Starting in 2003, interest due on domestic debt is gross, and interest received on deposits in the central bank are recorded in nontax revenues.

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

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



Table 7. Senegal: Monetary Survey, 2000-05

	2000	2001	2002		2003	2004	2005
			(EBS/02/50)	Est.			
(In billions of CFA francs)							
Net foreign assets	88.7	169.6	198.5	279.5	309.9	380.0	429.7
Central Bank of West African States (BCEAO)	-5.6	66.7	95.6	144.8	165.8	225.8	264.7
Commercial banks	94.3	102.9	102.9	134.7	144.1	154.2	165.0
Net domestic assets	701.7	735.6	777.2	700.4	756.6	784.8	835.4
Net domestic credit	785.3	837.4	877.5	794.2	857.0	892.2	950.3
Net credit to the government 1/	160.2	181.9	156.2	107.6	105.1	66.9	41.7
Central bank 1/	201.2	221.0	212.6	188.8	177.4	141.6	107.3
Statutory advance	38.9	73.5	50.9	73.5	68.8	62.2	55.5
Use of IMF credit 1/	154.1	159.4	152.0	152.2	130.7	105.0	80.5
Consolidated loans	4.5	8.9	7.9	7.3	5.5	3.1	1.1
Other loans 2/	59.1	59.1	59.1	59.1	59.1	59.1	59.1
Deposits	-55.4	-79.9	-57.3	-103.3	-86.7	-87.8	-88.9
Commercial banks	-42.5	-42.0	-57.9	-84.1	-75.2	-77.6	-68.5
Of which: deposits	-136.5	-143.8	-139.3	-144.6	-144.6	-144.6	-144.6
Of which: guarantee deposits	-15.7	-4.5	0.0	-4.5	0.0	0.0	0.0
treasury bills	0.0	27.4	20.0	0.0	23.0	35.0	58.5
Other institutions	1.5	2.9	1.5	2.9	2.9	2.9	2.9
Credit to the economy 3/	625.1	655.5	721.3	686.6	751.9	825.3	908.6
Of which: crop credit	0.0	5.0	5.4	0.9	8.0	8.6	9.3
Other items (net)	-83.6	-101.8	-100.3	-93.8	-100.4	-107.4	-114.9
Broad money (M2)	790.4	905.2	975.7	979.9	1,066.5	1,164.8	1,265.1
Currency outside banks	172.0	217.8	236.6	204.6	218.2	233.3	249.4
Demand deposits	292.9	323.5	346.3	371.2	424.6	438.4	478.0
Time deposits	325.5	363.9	392.8	404.1	423.7	493.1	537.7
(Change in percentage of beginning-of-period money stock)							
Net foreign assets	-2.1	10.2	3.3	12.1	3.1	6.6	4.3
BCEAO	-2.7	9.1	3.3	8.6	2.1	5.6	3.3
Commercial banks	0.5	1.1	0.0	3.5	1.0	0.9	0.9
Net domestic assets	12.8	4.3	4.7	-3.9	5.7	2.6	4.3
Net credit to the government	-4.0	2.7	-2.7	-8.2	-0.3	-3.6	-2.2
Credit to the economy	19.5	3.8	7.4	3.4	6.7	6.9	7.2
Other items (net)	-2.7	-2.3	0.0	0.9	-0.7	-0.7	-0.6
Broad money (M2)	10.7	14.5	7.9	8.3	8.8	9.2	8.6
Memorandum items:	(In units indicated)						
Velocity (GDP/M2; end of period)	3.9	3.7	3.7	3.6	3.6	3.6	3.6
Nominal GDP growth (percentage growth)	6.4	8.5	7.9	5.0	9.3	7.9	7.9
Credit to the economy (percentage growth)	28.6	4.9	10.2	4.7	9.5	9.8	10.1
Credit to the economy/GDP (in percent)	20.1	19.4	19.8	19.3	19.4	19.7	20.1
Variation of net credit to the government 1/ (since the beginning of the year; in billions of CFA francs)	-28.3	21.7	-25.7	-74.3	-2.5	-38.2	-25.3

Sources: Senegalese authorities; and staff estimates and projections.

1/ For 2003-05: before anticipated IMF disbursement under the new Poverty Reduction and Growth Facility-supported program.

2/ Kuwaiti deposit at the central bank.

3/ December 2000 figures include CFAF 32.5 billion in declassified crop credits of the 1999/2000 agricultural campaign.

Table 8. Senegal: Medium-Term Balance of Payments, 2000-07  
(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002		2003	2004	2005	2006	2007
			(EBS/02/50)	Est.					
Current account	-195	-165	-187	-167	-216	-211	-224	-229	-246
Balance on goods	-297	-312	-278	-320	-393	-386	-412	-422	-443
Exports, f.o.b.	655	735	763	765	777	841	893	950	1013
Groundnuts products	60	73	65	62	35	45	46	49	52
Fish products	162	176	182	157	164	176	186	196	208
Phosphate products	72	86	119	131	130	148	155	162	170
Other exports	345	387	397	402	433	456	488	520	556
Imports, f.o.b.	-952	-1047	-1,041	-1,085	-1,170	-1,227	-1,305	-1,372	-1,456
Petroleum products	-213	-205	-178	-190	-186	-175	-180	-180	-189
Rice	-84	-91	-103	-106	-101	-101	-106	-109	-114
Other consumer goods	-260	-325	-288	-326	-344	-356	-367	-378	-390
Capital goods	-147	-156	-173	-178	-214	-239	-269	-281	-305
Intermediate goods	-247	-270	-299	-286	-326	-356	-385	-424	-458
Services and incomes (net)	-77	-76	-88	-78	-79	-80	-82	-80	-82
Credits	336	341	357	354	367	382	397	414	430
Of which: tourism	103	128	99	134	141	148	155	163	171
Debits	-414	-417	-445	-431	-446	-461	-479	-493	-512
Of which: interest on public debt 1/	-43	-33	-33	-36	-32	-32	-31	-30	-31
Unrequited current transfers (net)	179	222	179	231	256	255	269	273	279
Private (net) 2/	115	173	128	177	182	190	199	208	218
Public (net)	64	50	51	53	74	65	70	64	61
Of which: budgetary grants	14	0	7	2	29	18	23	20	20
Capital and financial account	177	227	198	259	206	227	243	255	263
Capital account	55	86	78	71	78	88	98	103	103
Private capital transfers	2	2	3	3	3	3	3	3	3
Project grants	53	83	75	68	75	85	95	100	100
Debt cancellation	0	0	0	0	0	0	0	0	0
Financial account	121	141	120	189	129	139	145	153	160
Direct investment	44	29	45	54	61	64	67	69	72
Portfolio investment	10	10	-6	5	-7	-7	-7	-9	-10
Other investment	67	103	81	129	75	82	85	93	98
Public sector (net)	26	54	38	40	32	42	39	45	49
Of which: disbursements	88	117	120	115	96	103	97	105	107
Program loans	37	61	49	42	0	0	0	0	0
Project loans	41	43	68	67	91	98	92	100	102
Other	10	5	4	5	5	5	5	5	5
amortization 1/	-62	-66	-72	-77	-64	-61	-58	-60	-58
Private sector (net), incl. errors and omissions 2/	42	48	43	89	43	41	46	48	49
Overall balance	-18	62	11	92	-10	16	18	26	17
Financing	18	-62	-11	-92	-10	-48	-31	-42	-17
Net foreign assets (BCEAO)	19	-72	-30	-78	-21	-60	-39	-46	-35
Operations account and other	22	-71	-19	-65	3	-31	-12	-23	-15
Net use of Fund resources	-3	-2	-11	-13	-24	-29	-27	-23	-21
Purchases	13	22	8	8	0	0	0	0	0
Repurchases	-16	-23	-19	-21	-24	-29	-27	-23	-21
Deposit money banks	-4	-9	0	-32	-9	-10	-11	-12	0
Payments arrears (reduction -)	0	0	0	0	0	0	0	0	0
Exceptional financing 3/	3	19	18	18	20	22	19	16	19
Residual financing gap 4/	0	0	0	0	20	32	13	16	0
Memorandum items:									
Current account balance									
As percentage of GDP (incl. current official transfers)	-6.3	-4.9	-5.1	-4.7	-5.6	-5.0	-5.0	-4.7	-4.7
As percentage of GDP (excl. current official transfers)	-8.5	-6.5	-6.7	-6.3	-7.6	-6.7	-6.6	-6.1	-5.9
Gross official reserves	273.3	339.3	361.8	406.7	402.1	435.1	448.0	495.0	531.3
(in months of imports of goods and nonfactor services)	2.6	3.0	3.2	3.5	3.2	3.3	3.2	3.4	3.5
Exchange rate (CFA francs per U.S. dollar)	710.1	732.4	728.9	695.4	653.4	653.4	651.8	650.7	649.7
Nominal GDP (in billions of CFA francs)	3,114	3,380	3,648	3,550	3,881	4,188	4,520	4,887	5,283

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

1/ Interests and amortization of public debt can be slightly different from those presented in the fiscal table, owing to a different treatment of the operations account debt at the BCEAO.

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

3/ Interim HIPC Initiative debt relief is recorded as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank, and the Paris Club.

4/ Before external budgetary assistance under a possible Poverty Reduction and Growth Facility-supported program.

Table 9. Senegal: External Financing Requirements, 2000-05  
(In billions of CFA francs)

	2000	2001	2002 Est.	2003	2004 Program	2005
External financing requirements	-153	-236	-179	-202	-231	-213
Current account deficit (excl. official transfers)	-195	-165	-167	-216	-211	-224
Amortization	-62	-66	-77	-64	-61	-58
Fund repurchases	-16	-23	-21	-24	-29	-27
Private capital, net	98	89	151	99	100	109
Change in arrears	0	0	0	0	0	0
Change in net external reserves without IMF (- = increase)	22	-71	-65	3	-31	-12
Available financing	91	125	118	91	98	92
Project financing	41	43	67	91	98	92
Program financing	37	61	42	0	0	0
IMF	13	22	8	0	0	0
Official transfers and other	62	111	62	91	102	108
Financing gap	0	0	0	20	32	13
Projected budgetary disbursements under a new Poverty Reduction and Growth Facility-supported program	...	...	...	20	32	13
Multilateral donors (incl. IMF)	...	...	...	20	32	13
IMF	...	...	...	6	6	6
World Bank 1/	...	...	...	5	18	7
Other 2/	...	...	...	9	9	0
Bilateral donors	...	...	...	0	0	0
Remaining financing gap	0	0	0	0	0	0

Sources: Senegalese authorities; and staff estimates and projections.

1/ Reflects projected budgetary disbursements under the baseline scenario in the World Bank's Country Assistance Strategy draft paper.

2/ Projected budgetary lending of the African Development Bank.

Table 10. Senegal: External Public Debt, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
			Est.	Program			Proj.	
(In billions of CFA francs)								
Net change in nominal debt stock 1/	16.0	45.5	32.2	-455.5	90.5	65.3	71.7	62.2
Newly accumulated debt	78.1	111.6	109.6	110.9	129.8	104.9	116.0	101.7
Budgetary loans 2/	37.1	60.6	42.2	19.9	32.3	12.6	16.0	-0.1
Project loans	41.0	51.0	67.5	91.0	97.5	92.3	100.0	101.8
Debt amortization and interim debt relief	-62.1	-66.1	-77.4	-43.6	-39.3	-39.6	-44.3	-39.5
Stock of external public debt 1/	2,158.1	2,203.6	2,235.8	1,780.4	1,870.9	1,936.2	2,007.9	2,070.1
(In units indicated)								
Key external debt ratios								
Net present value (NPV) of debt to GDP 3/	37.7	35.5	34.3	32.3	31.5	30.2	29.0	27.6
NPV of debt to exports 3/ 4/	132.1	125.8	120.6	118.1	118.9	117.1	114.5	111.5
NPV of debt to fiscal revenue 3/	239.9	223.9	209.5	197.9	189.7	179.2	171.0	162.4
Nominal debt stock to GDP	69.3	65.2	63.0	45.9	44.7	42.8	41.1	39.2
Memorandum items:								
Debt stock (nominal growth in percent) 1/	0.7	2.1	1.5	-20.4	5.1	3.5	3.7	3.1
Exports (in billions of CFA francs) 5/	930.3	1,027.0	1,068.3	1,092.4	1,168.7	1,235.3	1,306.5	1,384.3
Exports (nominal growth in percent)	3.3	10.4	4.0	2.3	7.0	5.7	5.8	5.9
Fiscal revenue (in billions of CFA francs)	537.3	576.8	627.3	698.5	760.0	826.8	897.1	973.3
Fiscal revenue (nominal growth in percent)	10.9	7.4	8.8	11.3	8.8	8.8	8.5	8.5

Source: Staff estimates and projections.

1/ Assumes completion point and associated stock-of-debt operation in 2003.

2/ Assumes that financing gap in 2003-05 will be closed with concessional budgetary loans.

3/ Assumes that degree of concessionality evolves as projected in the decision point document.

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

5/ Current year exports of goods and nonfactor services.

Table 11. Senegal: WAEMU Convergence Criteria, 2000-05  
(In percent, unless otherwise indicated)

	Ratio	2000	2001	2002	2003	2004	2005
				Est.	Proj.		
<b>Primary criteria</b>							
Basic fiscal balance / GDP	$\geq 0$	1.2	-0.8	2.2	0.3	0.7	0.7
Inflation (annual average)	$\leq 3$	0.7	3.0	2.2	2.0	1.8	2.0
Total nominal debt / GDP 1/	$\leq 70$	78.0	75.0	70.6	52.8	50.8	48.6
Domestic arrears accumulation (in billions of CFA francs)	$\leq 0$	0.0	0.0	0.0	0.0	0.0	0.0
External arrears accumulation (in billions of CFA francs)	$\leq 0$	0.0	0.0	0.0	0.0	0.0	0.0
<b>Secondary criteria</b>							
Wages / fiscal revenue	$\leq 35$	32.7	30.7	31.8	29.7	29.7	30.1
Domestically financed investment / fiscal revenue	$\geq 20$	19.8	20.5	23.6	24.1	24.1	24.7
Current account deficit, excluding current official transfers / GDP	$\leq 5$	8.5	6.5	6.3	7.6	6.7	6.6
Tax revenue / GDP	$\geq 17$	17.3	17.1	17.7	18.0	18.1	18.3

Sources: Senegalese authorities; and staff estimates and projections.

1/ Assumes the HIPC Initiative completion point and an associated stock-of-debt operation in 2003.

Table 12. Senegal: Indicators of Fund Credit, 2000-14

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Projections														
<b>Outstanding use of Fund credit</b>															
In millions of SDRs	195.4	197.6	185.8	164.8	138.4	114.2	88.0	64.3	46.8	33.2	22.6	13.4	8.3	4.2	1.4
In billions of CFA francs	183.0	184.2	167.1	143.3	120.4	99.2	76.4	55.7	40.5	28.7	19.5	11.6	7.2	3.6	1.2
In percent of government revenue	32.5	30.6	25.2	19.7	15.3	11.6	8.3	5.6	3.7	2.4	1.5	0.8	0.5	0.2	0.1
In percent of exports, f.o.b.	19.7	17.9	15.6	13.1	10.3	8.0	5.8	4.0	2.8	1.9	1.2	0.7	0.4	0.2	0.1
In percent of GDP	5.9	5.5	4.7	3.7	2.9	2.2	1.6	1.1	0.7	0.5	0.3	0.2	0.1	0.0	0.0
In percent of quota	120.8	122.1	114.8	101.8	85.5	70.6	54.4	39.7	28.9	20.5	13.9	8.3	5.2	2.6	0.9
<b>Repurchases and charges due before HIPC Initiative assistance</b>															
In millions of SDRs	19.5	22.9	22.2	29.5	34.7	32.4	27.2	24.6	18.3	14.3	11.3	9.7	5.6	4.7	3.3
In billions of CFA francs	18.3	21.4	20.0	25.6	30.2	28.1	23.6	21.3	15.8	12.4	9.8	8.4	4.9	4.1	2.8
In percent of government revenue	3.3	3.5	3.0	3.5	3.8	3.3	2.6	2.1	1.5	1.0	0.8	0.6	0.3	0.2	0.2
In percent of exports of goods and services	2.0	2.1	1.9	2.3	2.6	2.3	1.8	1.5	1.1	0.8	0.6	0.5	0.3	0.2	0.1
In percent of GDP	0.6	0.6	0.6	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0
In percent of quota	12.1	14.2	13.7	18.2	21.4	20.0	16.8	15.2	11.3	8.8	7.0	6.0	3.5	2.9	2.0
<b>Repurchases and charges due after HIPC Initiative assistance 1/</b>															
In millions of SDRs	18.2	19.6	18.8	24.4	26.2	23.9	22.1	22.9	18.3	14.3	11.3	9.7	5.6	4.7	3.3
In billions of CFA francs	17.0	18.2	16.9	21.2	22.8	20.8	19.2	19.9	15.8	12.4	9.8	8.4	4.9	4.1	2.8
In percent of government revenue	3.0	3.0	2.6	2.9	2.9	2.4	2.1	2.0	1.5	1.0	0.8	0.6	0.3	0.2	0.2
In percent of exports of goods and services	1.8	1.8	1.6	1.9	2.0	1.7	1.5	1.4	1.1	0.8	0.6	0.5	0.3	0.2	0.1
In percent of GDP	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0
In percent of quota	11.2	12.1	11.6	15.1	16.2	14.8	13.7	14.2	11.3	8.8	7.0	6.0	3.5	2.9	2.0
<b>Net use of Fund credit</b>															
(in millions of SDRs)	-2.8	2.2	-11.8	-21.0	-26.4	-24.2	-22.7	-23.7	-17.5	-13.6	-10.7	-9.2	-5.1	-4.2	-2.8
Disbursements	14.3	23.3	9.0	6.9	6.9	6.9	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	17.1	21.1	20.8	27.9	33.3	31.2	26.2	23.7	17.5	13.6	10.7	9.2	5.1	4.2	2.8

Sources: International Monetary Fund, Treasurer's Department; and staff estimates and projections.

1/ Reflects HIPC Initiative interim assistance until late-2003 and expected delivery of assistance after the completion point.

Table 13. Senegal: Income and Social Indicators

	Year/Period	Senegal	Sub-Saharan Africa	Low-Income countries
<b>Population</b>				
Total population (millions)	2001	9.8	659	2,459
Population growth rate (percent)	1995-2001	2.7	2.6	1.9
Urban population (percent of total)	1995-2001 1/	45	34	32
<b>Income</b>				
Gross national income (GNI) per capita (U.S. dollars)	2001	480	480	420
<b>Income/consumption distribution</b>				
Gini index 2/	2001	30	...	...
Lowest quintile	1997	6.4	...	...
Highest quintile	1997	48.2	...	...
<b>Gross primary enrollment 3/</b>				
Male	1995-2001 1/	66	78	96
Female	1995-2001 1/	71	85	102
	1995-2001 1/	57	71	86
<b>Illiteracy 4/</b>				
	1995-2001 1/	67	38	38
<b>Infant mortality (per 1,000 live births)</b>				
	1995-2001 1/	68	92	77
<b>Life expectancy at birth</b>				
	1995-2001 1/	52	47	59
<b>Population per hospital bed</b>				
	1995-2001 1/	2,489	1,305	...
<b>Child malnutrition 5/</b>				
	1995-2001 1/	22	...	...
<b>Access to water and sanitation (percent of population)</b>				
Access to an improved water source	1995-2001 1/	51	55	76
<b>Access to sanitation (percent of population)</b>				
Urban	1995-2001 1/	70	53	...
	1995-2001 1/	94	79	...
Rural	1995-2001 1/	48	39	...

Source: World Bank, African Indicators ("Country at a Glance," "Social Indicators" table), 2003, unless otherwise indicated.

1/ Latest year available.

2/ Source: poverty reduction strategy paper.

3/ Percent of school-age population.

4/ Percent of population age 15+.

5/ Percent of children under age 5.

Republic of Senegal

Ministry of Economy and Finance

The Minister of Economy and Finance

Dakar, Senegal

April 10, 2003

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

Dear Mr. Köhler:

1. On April 20, 1998, the Executive Board of the International Monetary Fund approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in support of Senegal's economic and financial program. The third annual arrangement, which was extended by 12 months, expired on April 19, 2002.
2. In order to consolidate the encouraging results obtained up to this point and to create the conditions for a higher rate of growth that will help combat poverty more effectively, Senegal has prepared a Poverty Reduction and Strategy Paper that was considered by the IMF Executive Board on December 19, 2002. The government has also designed a new economic reform program for the 2003-05 period focused on poverty reduction. The objectives of this program are set forth in the Memorandum on Economic and Financial Policies drafted in collaboration with IMF and World Bank staff.
3. In support of this program, the government requests a three-year arrangement under the Poverty Reduction and Growth Facility in the amount of SDR 24.27 million, as well as interim assistance from the Fund under the enhanced HIPC Initiative in the amount of SDR 5.083 million.
4. The government believes that the policies and measures set forth in the attached memorandum will permit the achievement of program objectives, but it will, if required, take any additional measures deemed necessary to that effect. During the period covered by an arrangement under the PRGF, the government will consult the Managing Director of the IMF on any appropriate economic or financial measure, at its own initiative, or at the request of the Managing Director. Furthermore, following the period of an arrangement under the PRGF and while Senegal maintains financial obligations to the Fund resulting from loans granted under this arrangement, the government and the Fund will hold periodic consultations on Senegal's economic and financial policies, at the government's initiative or at the request of the Managing Director. The government will provide the Fund with



information needed to evaluate Senegal's progress in implementing its economic and financial policy and in achieving the program objectives. In any event, the Fund, together with the government of Senegal, will carry out a first review midway through the first year of the program, to be concluded by end-November 2003 at the latest. This review will include an examination of the main components of the medium-term recruitment and wage policy for civil servants and an evaluation of the reform of the tax system, including the Investment Code, that will enter into force in the context of the 2004 budget. The second review of the first annual arrangement, which should be concluded by end-April 2004 at the latest, will focus on postal sector reforms, as well as implementation of the action plan for reforms in public expenditure management based on an exhaustive diagnosis currently being conducted with the support of development partners.

Sincerely yours,

/s/

Abdoulaye DIOP  
Minister of Economy and Finance

Annex: Memorandum on Economic and Financial Policies for 2003-05

## SENEGAL

### Memorandum on Economic and Financial Policies for 2003-05

Dakar, April 10, 2003

#### I. INTRODUCTION

1. The government intends to launch the implementation of its poverty reduction strategy in 2003. The objective of this strategy,<sup>1</sup> which fits harmoniously into the vision of NEPAD, is to lay the foundation for robust, balanced, and more evenly distributed growth; facilitate general access to essential social services by the end of the decade; and ultimately eliminate all forms of exclusion.

2. The analysis of the poverty profile and of the causes and forms of poverty has led to a strategy based on four key pillars: (i) wealth creation; (ii) capacity-building and the strengthening of basic social services; (iii) the improvement in the living conditions of vulnerable groups; and (iv) the establishment of a decentralized, participatory mechanism for strategy implementation and monitoring. The government will complement its wealth creation strategy by strengthening the macroeconomic framework, improving governance, and implementing structural reforms essential to the eventual removal of key obstacles to growth and to eliminate risks of major financial imbalances emanating from the parastatal sector.

3. This memorandum describes recent economic developments and presents the medium-term economic and financial program (2003-05) that is based on the poverty reduction strategy, and for which the government seeks a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF).

#### II. RECENT ECONOMIC DEVELOPMENTS AND STRUCTURAL REFORMS IMPLEMENTED IN 2002

4. **Economic growth** slowed to 2.4 percent<sup>2</sup> in 2002, owing to disappointing results in the primary sector, where a drop of 14 percent was recorded as a result of shrinking output in

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<sup>1</sup> The strategy is described in detail in the Poverty Reduction Strategy Paper (PRSP) published in May 2002 and presented to the Executive Boards of the IMF and the IDA on December 18 and 23, 2002, respectively.

<sup>2</sup> On September 19, 2002, the WAEMU Council of Ministers discussed and approved a draft Regulation governing the adoption of methods of calculating GDP. The purpose of this new methodology is to ensure reliability, comparability, and conformity with the U.N. System of National Accounts 1993 (SNA 1993). The new elements essentially concern broadening the

(continued)

the livestock (-7.7 percent) and agriculture (-21.2 percent) subsectors. Growth in the secondary and tertiary sectors is estimated at 10.1 percent and 4.8 percent, respectively. Average inflation (measured by the harmonized consumer price index) reached 2.2 percent, in line with West African Economic and Monetary Union (WAEMU) convergence criteria. As regards the external sector, the current account deficit (excluding grants) is estimated at roughly 6.3 percent of GDP.

#### A. Fiscal Policy

5. In executing the 2002 budget, the government has given priority to social services, while ensuring that overall expenditure was in line with an annual target for the budget deficit (excluding grants) of approximately 1½ percent of GDP, a reduction of 2.3 percentage points of GDP relative to 2001. The basic balance improved, reaching a surplus estimated at 2.2 percent of GDP, compared to a deficit of 0.8 percent in 2001, owing to strong revenue performance and better expenditure control, including the elimination of subsidies for petroleum products (except butane) and virtually all public enterprises since 2001.

6. Based on preliminary figures, the revenue collection ratio increased by half a percentage point to about 17.7 percent of GDP, reflecting the full-year effect of the single VAT rate and steps taken to strengthen tax audits and computerize the tax administration. Total expenditure and net borrowing are estimated at CFAF 718.7 billion (20.2 percent of GDP) in 2002, including expenditure financed with HIPC Initiative resources of CFAF 10.1 billion. The wage bill increased by 12.5 percent to CFAF 199.4 billion, due in particular to the financial impact of the reform of the National Retirement Fund (FNR) of CFAF 11 billion and wage hikes granted in January 2002 that totaled CFAF 6.7 billion. Transfers and subsidies were limited to CFAF 106.2 billion, including a subsidy of CFAF 4.3 billion to SENELEC and social safety net spending (subsidies for small bottles of butane gas) of CFAF 4.9 billion. The budget did not include a transfer or subsidy for SONACOS, or subsidies for petroleum products (except butane). Investment expenditure reached CFAF 275.7 billion, of which 54 percent was estimated to have been financed with domestic resources.

7. The government's determination to reduce poverty was reflected in its fiscal priorities. The most significant steps taken in this context aimed at boosting the efficiency of public spending. This was to be achieved in particular by increasing the allocation for education, which is estimated to have increased from 31.6 percent of budgetary expenditure in 2001 to 32.0 percent in 2002, and by expanding the health budget, which accounted for 9.2 percent of budgetary expenditure, slightly higher than the 9 percent established as

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scope of accounting, harmonizing classifications, and coordinating evaluation methods, including, in particular, standardization of the recording of crop campaigns. As a consequence, the production of the crop year 2002-03 is recorded in 2002. In other words, the decline in agricultural production in 2002-03, which would have been recorded in 2003 under the former methodology, is now reflected in 2002. This necessitates a revision of the growth figure for 2002, which was initially projected at 5 percent.

benchmark by the World Health Organization. To further the decentralization process, the government appropriated an additional CFAF 2.5 billion in favor of local governments.

### **B. Money and Banking Sector**

8. Based on end-December estimates, broad money increased by 8.3 percent in 2002, reflecting growth in net foreign assets of 12.1 percent in terms of beginning-of-period broad money, due in particular to the handover of French franc banknotes to the central bank in the context to the conversion to the Euro. Credit to the economy increased moderately by 3.4 percent in terms of beginning-of-period broad money, while net bank credit to the government (NBCG) in 2002 declined by 8.2 percent. Central bank credit under the statutory advance, at CFAF 73.5 billion, was unchanged from the previous year. In view of WAEMU member countries' difficulties in honoring their initial commitment to fully repay all credits under the statutory advance by end-December 2001, the WAEMU Council of Ministers decided on September 19, 2002 to consolidate these credits at their December 31, 2001 level, at an interest rate of 3 percent per year and with quarterly repayments over a period of 10 years. Surveillance of the banking system continues to receive special attention. The monetary authorities approved the closure of a financial institution that had not complied with prudential regulations and revoked its license in August 2002.

### **C. Structural Reforms in 2002**

9. **Groundnut sector.** After substantial budgetary support in 2001 that helped eliminate the deficit of SONACOS, its financial performance improved in 2002, with the company recording a modest cash surplus of CFAF 1.7 billion. Nevertheless, as the enterprise remains sensitive to a possible worsening of global market conditions for its products, vigilance remains in order.

10. As regards **SENELEC**, the initial forecast of a balanced cash-flow position could not be achieved. Instead, the company recorded a cash deficit of about CFAF 3 billion and has not been able to clear its arrears, despite recovery measures taken during 2002 by the government, which included the strengthening of the company's management. To improve SENELEC's financial position, electricity rates were raised by 10 percent, effective March 1, 2002, and SENELEC received a subsidy of CFAF 4.3 billion in 2002. The end-year result of SENELEC, even though it represents an improvement over the previous year, shows that the recovery measures did not suffice, owing in part to overly optimistic projections for electricity bill collections from the government, and in the other part due to higher costs resulting from the surge in petroleum prices in 2002. To this end, the government's main development partners involved in the sector were contacted to discuss possible ways of permanently overcoming the difficulties related to the insufficient generation of electricity.

11. As regards the postal office, the key objectives of the strategic plan for 2001-03, include institutional, operational, commercial, and functional measures. The postal office will continue to pursue the reform program described in the action plan of the Public Enterprise Audit and Oversight Committee, including a revision of the convention between the treasury

and the postal office with a view to ensuring effective control of financial flows between the two entities. In addition, the government plans to implement the recommendations of the February 2002 World Bank technical assistance mission for the postal system, once it has validated them. An independent audit firm has calculated the costs of the post office's universal service obligation, and, for the first time, the government has inscribed a corresponding allowance in the 2003 budget.

12. As regards the pension system, the viability of the **National Retirement Fund (FNR)** was negatively affected by the liquidation of public enterprises, the more rapid increase in the number of pensioners relative to the number of contributors (owing to the freeze in civil service hiring), and relatively generous benefits accorded to retirees. To remedy this situation, the government's FNR reform plan included the following changes: (i) a revision of pension benefits, to be based on the last three years of employment, instead of the last year only; (ii) a reduction in ancillary benefits; (iii) a broadening of the base for the calculation of contributions to include other types of compensation in addition to the base wage; and (iv) an increase in the retirement age. As a result, the FNR's annual net flow to the treasury has turned positive and is expected to remain so for a long period of time.

#### **D. HIPC Initiative and Completion Point**

13. The government has taken the necessary steps to quickly reach the completion point under the enhanced HIPC Initiative. Virtually all **macroeconomic targets** mentioned in the HIPC Decision Point Document have been met and the structural measures have been implemented. Reflecting its firm resolve to pursue its **withdrawal from the productive sector**, the government has sold or liquidated eleven public enterprises from an agreed list with the specific choice of companies left to the government. At end-December 2001, the following eleven (11) public enterprises were offered for sale or liquidated: SONAFOR, SIDEC, SONEPI, SONAGRAINES, SEPROT, SERAS, the railway line DAKAR-BAMAKO, SODEFITEX, SODIDA, SEN-RE, and SENELEC. The privatization of SENELEC was not completed. The privatization process for the railway line DAKAR-BAMAKO and for SODEFITEX is being pursued, despite difficulties with prospective buyers at the final stages of the process throughout 2002. The main objective is to bring these final operations to a successful conclusion as fast as possible.

14. As regards measures in the education sector, their objectives have largely been attained. In the health sector, an emergency action plan has been developed, in partnership with the World Bank. The implementation of this plan is expected to lead, inter alia, to improvements in indicators of access to prenatal care, vaccination coverage, and use of primary health care centers, indicators whose recent evolution has been favorable.

### **III. THE MEDIUM-TERM FRAMEWORK OF 2003-05 ECONOMIC POLICIES**

15. Despite good results as regards growth and macroeconomic stability, the government is aware, as the PRSP stresses, that a quick reduction in poverty will require faster and more diversified growth and greater efforts to increase access to high-quality basic social services

and infrastructures, primarily in rural areas, to boost the incomes of the poor. On this basis, the 2003-05 program aims at (i) sustaining a real growth rate beyond 5.0 percent per annum, (ii) maintaining price stability in line with price developments in the main trading partner countries, and (iii) keeping the fiscal deficit and the deficit of the external current account, including grants, at sustainable levels.

16. Although the government is firmly committed to implementing all the actions envisaged in the PRSP, the program described below is based on a more narrow economic policy platform. It focuses on the pursuit of macroeconomic stability, improved governance, and the implementation of reforms essential to remove the main obstacles to growth as well as eliminating the risks of major financial imbalances originating in parastatal companies. Moreover, the program's macroeconomic framework is based on the PRSP's prudent growth scenario, reflecting, in the medium term, a measured response of the economy to the envisaged economic and institutional reforms, a certain degree of caution in view of possible exogenous shocks to which our economy remains vulnerable, and a pace of execution of public expenditure programs that is consistent with the economy's absorptive capacity. As the implementation of reforms and investment programs progresses, and in light of actual results, the scope of the program may be expanded, and the assumptions of the macroeconomic framework adjusted. This flexible and prudent approach, based on a distinction between the PRSP's growth objectives, which the government views as desirably ambitious, and the growth assumptions underpinning the macroeconomic program, will in particular reduce risks of overheating that could result from a fiscal policy based on overly ambitious objectives.

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

17. Fiscal policy will remain prudent. The basic fiscal balance (including additional expenditure under the enhanced HIPC initiative and the cost of specific structural reforms) is expected to be positive at 0.3 percent of GDP in 2003, and to stabilize at 0.7 percent in 2004 and 2005. The relatively small basic fiscal surplus in 2003 reflects the execution of HIPC Initiative spending with resources carried over from 2002. The underlying public expenditure strategy will aim at accelerating the switching of expenditure toward the priority sectors identified in the PRSP, as well as strengthening expenditure management to boost efficiency. Overall spending is projected to grow relatively fast in 2003, to allow for the expansion of social services and infrastructure included in the PRSP, reaching about 22.8 percent of GDP, including approximately 1 percent of spending financed with HIPC Initiative resources, and to stabilize around 22.5 percent of GDP in 2004 and 2005. The government will pursue revenue mobilization efforts, aiming at a gradual expansion of the tax base and greater efficiency in the tax administration. These projections do not include a possible revision of the fiscal framework in the medium-term, with respect to both revenues and expenditures, in view of the implementation of a hiring and wage policy that remains to be defined. The government will also continue to seek foreign assistance to finance its externally funded investment program at concessional terms.

18. In 2003, the government will define a medium-term hiring policy to address civil service staffing needs. This policy will also include key elements of a medium-term

compensation strategy, taking into account incentives for greater efficiency and aspects of competitiveness with the private sector for certain key positions. As regards the **wage bill**, the government will proceed with hiring staff during 2003-05, particularly in the social sectors, as envisaged in the PRSP. It will also introduce a compensation system incorporating better incentives for civil servants in 2004. The government will include the World Bank and other interested donors and lenders in the process of defining the civil service reform and the hiring strategy.

19. Overall tax policy will focus on simplifying the tax structure during the next three years, with a view to increasing its yield. At the same time, the government will complete a study before end-June 2003 to assess the desirability of lowering marginal income tax rates, and will continue its efforts to expand the tax base by progressively taxing sectors outside the formal economy. As regards the reform of the investment code, the policy will be based on the principles of rationalization, non-discrimination, and safeguarding public finance sustainability. The government will consult with Fund staff on the key elements of the fiscal reform at the latest in the context of the first review of the program.

### **B. Monetary Prospects**

20. The basic objective of regional monetary policy will remain to ensure price stability and the strengthening of the foreign reserves position, using market-based policy instruments. The issuance of treasury bills will be the main domestic source for financing fiscal deficits, in accordance with the commitment of the WAEMU states not to seek any more direct monetary financing from the BCEAO.

21. As regards the financial sector, the government's principal objective is to create an environment conducive to the mobilization and efficient intermediation of savings, so as to meet financing needs of the private sector. The government will strive to eliminate the impediments to a deepening of credit markets, including delays in the modernization of the judicial system, insufficient observance of accounting standards by small and medium-sized enterprises, and problems related to securing collateral in case of default. In this context, the government will continue to strengthen the training of judges in commercial and financial matters. The creation of commercial courts and the appointment of specially trained judges are under consideration. The government also intends to strengthen the development of the microfinance sector, so as to expand the access of the population to financial services and to combat poverty more effectively.

### **C. External Sector Policies**

22. **Absence of exchange restrictions.** The government will keep the economy free of any exchange restrictions, multiple currency practices, and bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, and will neither introduce nor tighten import restrictions for the purpose of balance of payments control.

23. **External debt.** The government will neither contract nor guarantee external loans at nonconcessional terms, that is with a grant element of less than 35 percent,<sup>3</sup> and will not accumulate any arrears. Moreover, it will examine weaknesses in its debt management system and will take the necessary steps to enhance debt management capacities.

#### D. Structural Policies

24. The government has prepared a Strategic Orientation Framework Paper for the **agricultural sector**, focusing on four cross-cutting issues, in line with the PRSP: (i) enhancing the quality and sustainability of rural infrastructure; (ii) strengthening market arrangements in the agricultural and rural sector; (iii) strengthening the capacity of public and private, institutional and non-institutional, agents; and (iv) efficiently managing natural resources and the environment to secure a sustainable development. An operational plan is now being drafted. In the **groundnut sector**, the revised framework agreement with the non-governmental National Groundnut Sector Committee aims at strengthening the role of the private sector in the management of the groundnut sector, while the study on rural credit, which is about to be completed, will focus on the rationalization of finance for agriculture. In this context, the financial arrangements and the environment in the groundnut sector will receive particular attention. In particular, the guarantee, improvement, and disaster funds will be used appropriately and efficiently, with a view to avoid any adverse impact on the government's and SONACOS' financial situation. The situation of these various funds will be examined in the context of formulating the reform strategy for the groundnut subsector, key elements of which are described in paragraph 50.

25. In the **energy sector**, the policy of indexing domestic petroleum prices to world prices, introduced in the context of the sector's liberalization, will be maintained. The reform of the electricity sector is a priority, in view of the sector's impact on the competitiveness of the economy and the major costs that the economy and the Budget would incur were this sector to continue performing poorly. The basic objectives of reform are to ensure the generation of sufficient, high quality electricity at the lowest possible cost in a context of fast-growing demand, and to expand access to electricity, especially in rural areas. SENELEC will begin implementing its emergency investment program, notably with the 30-megawatt expansion of the Cap des Biches No. 4 Power Plant, scheduled to take up operations in early 2003. Moreover, in September 2002, the government-appointed task force, which includes staff from the World Bank and Agence Française de Développement, began to work on an emergency investment program (generation, transmission, and distribution) as well as on the institutional development of the sector.

26. The government will also continue its policy of rehabilitating and restructuring **public enterprises and government agencies**, and will strive to maintain the medium- and long-term financial equilibrium of the **National Retirement Fund**.

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<sup>3</sup> With the exception of IMF lending under the Poverty Reduction and Grant Facility, which is considered concessional even if it misses the 35 percent grant element threshold.



27. Strengthening the public finances will be furthered in the context of the government's firm resolve to implement the **national program for good governance**, which is essential to enhance the attractiveness of the Senegalese economy. The government will ensure that the new procurement code adopted in 2002 is strictly enforced.

28. The **fight against corruption** will be stepped up with the establishment of a national governance surveillance commission. As laid out in the PRSP, the government intends to take up the challenge of, inter alia, (i) respecting the principles laid down in the WAEMU Transparency Code concerning the reliability of published government financial statistics; and (ii) making comprehensive statistical information, particularly regarding budget execution, broadly available to the public. In this respect, the laws on the new statistical framework will be adopted no later than June 2003, and the recommendations of the Report on the Observance of Standards and Codes (ROSC), approved by the government, will be systematically implemented from 2003 onwards. Furthermore, Senegal's participation in the Fund's General Data Dissemination System will be expanded and the plan for improving statistics in the various sectors will be carried out.

29. To boost the efficiency of the **judicial system**, particular emphasis will be given to reducing the delays in judicial proceedings and expediting the execution of court decisions. As regards notably cases with economic and commercial content, the government encourages and supports the recourse to mechanisms of arbitration. The government will also make every effort to strengthen the independence of the judicial system and increase access to all citizens by hiring judges and improving their working conditions, modernizing and computerizing the offices of court clerks, and rehabilitating court buildings. A study will be prepared with a view to developing a five-year (2003-07) modernization program for the Ministry of Justice as part of a ten-year judicial reform plan. This plan, which is being prepared with the support of development partners, will be published by end-2003.

30. As regards **priority social sectors**, the government's objectives rest on the implementation of the poverty reduction strategy. Spending on education will reach 35 percent of current non-wage non-interest spending in 2003, and is expected to exceed 40 percent in 2005. The government is committed to achieve a target of 46.4 percent in 2005, up from 44 percent in 2003, for the ratio of primary education expenditure to total education spending. The share of health care spending in total non-wage non-interest current expenditure will increase to reach 9.5 percent in 2003 and 10 percent by 2005. Spending on primary health care will increase by 10 percent in 2003, and 14 percent in 2005. Furthermore, a study on the optimal ratio of contractual to regular staff in these sectors will be completed, with a view to improving and sustaining education and health services.

31. To achieve these objectives, the government will implement measures contained in the action plan to improve **absorption capacity** for investment, including: (i) strengthening the capacity and improving the tools and methods of technical ministries, by setting up operational units responsible for preparing, monitoring and evaluating investment; (ii) streamlining administrative and budgetary procedures for expenditure execution, in line with the reform of the procurement code, by reducing delays in expenditure control;

(iii) improving the institutional approach to and the management of public investment projects, and (iv) pursuing the modernization of the budget information system.

32. Implementing of the poverty reduction strategy requires an **expenditure framework** that allows speedy execution, regular monitoring and frequent assessments to measure the effect of the actions taken. Moreover, it requires a framework for monitoring the impact of the strategy. Pending the introduction of the Medium-Term Expenditure Framework (MTEF) and the expansion of output-based budgeting, the government will introduce a mechanism in 2003 to identify and track poverty-reducing spending from the budget down, with a view to speeding up its processing at various control points on a priority basis. As regards monitoring, legislation to set up a steering committee will be adopted.

33. In the area of **local governance**, the government will take the necessary steps by end-2003 to adopt a local tax regime that strengthens the financial resources of local governments.

34. The government has also expressed its resolve to promote the rapid development of infrastructure in the framework of the **Presidential Large Infrastructure Projects (LIP)** through public-private partnerships. Projects for the Ndiass international airport and a toll highway are the most advanced. Throughout the preparation of all the LIPs, the authorities will, as part of a consultation process, provide Fund and World Bank staff with all the information (relevant to each institution's respective area of primary expertise) needed to: (i) assess the technical, economic, and financial viability of the LIP; and (ii) measure their impact on the macroeconomic framework set out in the government's economic and financial program for 2003-05. World Bank staff will assess the viability of the projects, and the Fund team will assess the macroeconomic aspects to ensure consistency with the economic and financial program. At the end of the consultation process, the macroeconomic framework will be adjusted as needed to ensure that the overall objectives of the program remain attainable. The award of concessions will be carried out through a transparent and, in principle, competitive process, for which the government is drafting legislation on BOOTs (Build, Own, Operate, Transfer) and BOOs (Build, Own, Operate) in consultation with the World Bank. Finally, during the implementation phase of these projects, the government will ensure efficient, equitable and transparent public resource management.

#### IV. ECONOMIC AND FINANCIAL PROGRAM FOR 2003

35. The economic and financial program for 2003 envisages a growth rate of GDP of 6.6 percent, reflecting the expected return of agricultural output to its trend level, which would translate into 10.8 percent growth of the primary sector. Growth of the nonagricultural economy is projected at 5.7 percent, owing to significant investment in capacity expansion for the chemical and electrical sectors in recent years, and the sustained strong performance of the construction sector, boosted by public investment programs. Inflation is expected to remain moderate, with a growth rate of the GDP deflator of approximately 2.5 percent.

36. In the first program year, the government will focus on accelerating the implementation of its agenda to strengthen public expenditure management. Moreover, it will concentrate on implementing institutional reforms in sectors which, in the past, seriously threatened the government's ability to achieve its fiscal objectives, particularly the electricity and groundnut sectors and the postal service. Tax and civil service reforms to be introduced in 2004 will be prepared in 2003. Finally, the government will launch programs to strengthen the judicial system, and to promote private sector development and good governance.

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

37. The 2003 budget reflects a prudent policy aimed at ensuring long-term fiscal sustainability and allowing room for maneuver in the event of adverse exogenous shocks. With basic surplus of 0.3 percent of GDP and strong growth of externally financed capital expenditure, the overall balance including grants will shift to a deficit of 1.3 percent of GDP in 2003, from a surplus of 0.4 percent of GDP in 2002.

38. Revenue policy will focus on the simplification of the tax system for small and medium enterprises, the continuation of efforts to strengthen the tax and customs administrations, and the preparation of a reform of corporate taxation to support private investment. The tax-to-GDP ratio will be maintained at a level above 18 percent. The government will take all necessary measures, in addition to expenditure containment, should tax revenue fall far short of projections.

39. The government will also adopt legislation to introduce a simplified tax for small enterprises, combining the income tax, VAT, and business licensing fees. It will ensure that the new mechanism will be easy to use and administer, and that the tax is designed such that its introduction is revenue-neutral. The tax will allow both to expand and simplify the tax system under which small enterprises are operating.

40. As regards expenditures, the policy for 2003 aims at (i) strengthening expenditure management with a view to improve efficiency and transparency, (ii) increasing priority expenditures in favor of social sectors and basic infrastructure, in line with the implementation of the poverty reduction strategy described in the PRSP, and (iii) ensuring adequate funding for the costs of structural reforms. The government will also prepare a recruitment plan in the priority sectors, the financial administration, and domestic security which will be implemented starting in 2004. Overall spending, excluding externally financed investment, is expected to grow substantially, with current expenditure increasing by roughly 10 percent and domestically financed investment expenditure by 13.4 percent. The wage policy will continue to be prudent, with the wage bill as a share of tax revenue remaining well below the WAEMU criterion of 35 percent. The wage bill is expected to grow by 4 percent, owing mainly to the hiring of regular and contract staff, primarily in the education and health sectors, while wages will remain unchanged in 2003. As for other current expenditure, spending on goods and services and transfers will accelerate slightly, in line with investment expenditures. No new transfer to SONACOS is planned, and a subsidy of CFAF 5.7 billion is envisaged for SENELEC.

41. The above objectives will be supported by reforms of the tax and customs administrations and by sound and more transparent public expenditure management, described in the following paragraphs.

42. **Tax and customs administrations.** The implementation of the single taxpayer identification number will be pursued. It will be gradually extended to all administrations, starting with the private sector pension fund (IPRES) and the social security administration towards the end of the first semester of 2003. As regards the computerization of revenue collection, the information technology (IT) systems of the Tax Directorate, the Customs Directorate and the treasury Directorate will be integrated by end 2003, so as to improve tax assessment and share available taxpayer data. This IT integration will be expanded to decentralized government services in 2003. The computerization of procedures will be expanded to tax audits by end-2003. Finally, the long term objective will be to integrate tax administration and expenditure management IT systems.

43. **Public expenditure management.** In recent years, strong central control has allowed the government to contain overall expenditures and eliminate financial imbalances. Looking forward, it intends to take the same approach to increase the transparency and efficiency of the public expenditure management system. The diagnostic analysis of government financial operations that is currently carried out in cooperation with the World Bank, the African Development Bank, and the European Union aims at developing an action plan by April 2003. The plan will then serve as basis to complete the reform agenda.

44. In the meantime, efforts will focus on **harmonizing budgetary and accounting classifications** and on the gradual expansion of an integrated IT system for monitoring the expenditure process. Detailed measures are described in Annex I, and include the adoption of the three most recent public expenditure management directives of the WAEMU by the end of the first quarter of 2003. The implementation of the WAEMU chart of accounts and the inclusion of treasury execution operations into the integrated expenditure monitoring software will be tested in 2003. As a result, at the start of fiscal year 2004, it will be possible to use this software to monitor expenditure execution up to the payment stage.

45. The government will make arrangements to **enhance dissemination and improve controls of financial information.** Accordingly, the following documentation will be produced: in March 2003, the treasury end-period accounts for 2002; every month, monthly treasury accounts; each quarter, government financial operations (TOFE); and in June 2003, the reconciled accounts of the treasury and of the executed budget of 2002. A similar schedule will be followed in subsequent years. The delay in the adoption of the 1997-2001 budget execution laws will be made up during the first half of 2003 (for the 1997 to 2000 accounts) and during the second half (for the 2001 accounts), respectively, in compliance with WAEMU provisions. Finally, until March 2003, the government plans to complete the questionnaire necessary to prepare a mission on the fiscal module of the IMF's Report on the Observance of Standards and Codes (ROSC).

46. The government is also determined to minimize the use of **extraordinary budget procedures**. Accordingly, by the end of the complementary period (February 2003), it will regularize all outstanding cash treasury advances (*Avances de Trésorerie*, AT) and payments bypassing normal procedures (*Paievements par Anticipation*, PPA) for current and investment expenditures combined that were accumulated in 2002. Beginning with the fiscal year 2003, the total stock of AT and PPA is not expected to exceed 15 percent of the total quarterly spending authorization derived from the Budget Law, excluding special treasury accounts and externally financed investment expenditures.<sup>4</sup> As the accumulation of large amounts in deposit accounts (as defined in the attached technical memorandum of understanding) limits the ability to track actual expenditure execution, the government plans to limit balances held in these accounts to CFAF 20 billion.

47. Finally, to the extent that the implementation of structural reforms could imply costs to be borne by the Budget, the government will ensure that such costs are properly assessed and that the requisite budgetary appropriations are made, if necessary in a supplementary budget in consultation with Fund staff. As the reform program moves forward, these costs, as well as the proceeds from privatizations, will be more accurately assessed. This assessment involves in specific: (i) a partial recapitalization of the IPRES, as a consequence of contribution arrears by enterprises that are now being liquidated, the Postal Service, and the University of Dakar; and additional recapitalization that the World Bank intends to finance in the context of its support for pension reform; (ii) the possible costs of privatizing SENELEC and SONACOS, in particular severance pay; and (iii) operations to settle mutual debts of the Postal Service and the treasury stemming from the clearing process for postal checks, as well as the possible need to recapitalize the Postal Service with a view to spinning off its financial activities.

### **B. Monetary Policy and the Financial Sector**

48. Monetary and credit policy in 2003 will remain prudent. Broad money is expected to increase by 8.8 percent in 2003. Net bank credit to the government is expected to decrease by 0.3 percent in terms of beginning-of-the-period broad money, while credit to the economy is expected to grow by 6.7 percent in terms of beginning-of-the-period broad money. To support the development of the rapidly growing microfinance sector, the government will, in cooperation with donors and lenders, publish an orientation document to the define a strategy for the sector. This document will clarify the respective responsibilities of the Ministry of Finance unit in charge of supervision, the new Ministry of Female Entrepreneurship and Microcredit, and the BCEAO. It will also define the core tasks to be assigned to these institutions, with a view to separating the functions of supervision and regulation on the one hand, and those of development and promotion on the other.

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<sup>4</sup> This is equivalent to CFAF 28.2 billion in 2003.

### C. Public Enterprises

49. To avoid any major financial imbalance originating in parastatal companies, the government will ensure that **public enterprises in difficulty** (SONACOS and SENELEC) **are monitored more closely**, based on monthly financial and accounting information.

### D. Structural Reforms

50. **Groundnut sector.** The government will continue to closely monitor the management of SONACOS in 2003. It will take any necessary steps to prevent the worsening of SONACOS's financial position. The government will also pursue the privatization of SONACOS. By end-July 2003, it will announce the details of the privatization strategy and issue an international tender. Possible costs from privatization that the government would bear, for example from a possible redundancy plan, will be covered by a budget appropriation, if necessary in a supplementary budget in 2003, so as not to delay the privatization. Furthermore, in parallel with the privatization process, the government plans to issue a sector policy document covering issues such as the tax and customs regulations applicable to the sector, the financing of producers, the institutional aspects of managing the sector, special funds, price setting arrangements for the indicative producer price, and the new factory-gate groundnut marketing system. This document will also describe the main features of the government's policy in the groundnut sector, focusing on diversification in the groundnut basin, the strengthening of producer organizations, and the improvement of yields.

51. The government is aware that, as international experience has shown, the pre-privatization phase requires special attention to prevent a sudden deterioration of the enterprise's financial situation. In this context and in order to facilitate the certification of SONACOS' accounts—which will be a major concern to potential investors—the government will ensure that the enterprise issues a widely disseminated call for claims documentation under which any holder of residual claims on SONACOS may come forward within a given period. At the end of this period, SONACOS will conduct a thorough inventory of such claims with the assistance of an auditor. SONACOS will avoid making any partial settlement of these claims before the inventory is completed and certified. The terms of reference of the accounting firm assisting in the privatization will also include the monitoring of the company's accounts in the pre-privatization period.

52. **Electricity.** To ensure a satisfactory performance of the electricity sector over the long run, the government intends to involve the private sector in two ways in 2003. First, the government will specify the options and procedures for the privatization of SENELEC in an Energy Sector Policy Letter in March 2003. Second, it will issue a tender for a private Independent Power Producer (IPP) to expand overall generation capacity by approximately 60 MW, equivalent to about 20 percent of the capacity available at end-2002. The IPP would be slated to become operational by end 2004 or early 2005. Terms and conditions are currently being drafted, and a tender under international competitive bidding procedures will be issued by end-June 2003.

53. In the meantime, the government will take all necessary steps to ensure that the day-to-day management of SENELEC is both technically and financially satisfactory. In particular, the government will ensure that:

- SENELEC clears all outstanding arrears;
- Spending under SENELEC's Emergency Investment Program is limited to what is absolutely necessary for technical reasons, in accordance with the recommendations of the donors involved in the sector, namely the World Bank and the Agence Française de Développement. This program should be coherent with the sector's future capacity to cover the costs of these investments, which is being determined by the current medium-term financial programming exercise;
- the contractual provisions for electricity tariffs, including the revenue control formula, are applied without modification in 2003. Electricity tariff setting is governed primarily by the concession agreement between the government and SENELEC. Application of the revenue control formula at end-2002 does not require an increase in electricity rates. Moreover, a structural change in the regulation of prices will be envisaged in connection with implementing institutional reforms in the sector;
- finally, SENELEC's financial management will be closely monitored by the staff of the Ministry of Finance, based on regular financial and accounting information. The accounts at end-June 2003 will be audited by the company's external auditors, and the findings will be available at end-September 2003.

54. The government will adopt a number of extraordinary measures in the event of an increase in the cost of imported fuel that exceeds the projection in the company's cash flow plan by 30 percent over a period of more than three months. These measures would be based on the following principles: (i) SENELEC would first use its overdraft facility with local banks up to the approved limit of CFAF 6.1 billion, thereby allowing CFAF 3 billion to be used to absorb the extra costs; (ii) any remaining cash deficit would be covered by the government, using the additional tax revenue generated by the petroleum price increase, as well as possible budgetary support from external donors; (iii) finally, should the impact of an increase in petroleum prices on SENELEC's costs exceed the amount that could be covered by the overdraft facility and the envisaged subsidy, the following two steps would be taken: first, electricity tariffs would be adjusted during the year, i.e., before the statutory annual tariff revision at end 2003, in line with provisions for exceptional tariff adjustment in the current regulatory framework; and, second, this adjustment would be maintained for a sufficiently long period—even if petroleum prices were to fall subsequently—so as to cover the additional cost of the petroleum price increase financed by bank overdraft.

55. **Postal Service.** The government has revised its postal sector policy to improve the operation of the postal service, in view of the latter's important role in the economy and in providing rural areas with access to payments services and information, as well as the financial risks that poor performance entails for the public finances. The main objectives of

this policy include improving the management of the postal service and spinning off its financial activities (CCP—postal checking accounts, and CNE—National Savings Bank) into an autonomous subsidiary, subjected to the regulations applicable to financial institutions and supervised accordingly. The measures are expected ultimately to make the postal service independent of the treasury, and reduce the risk that financial slippage has to be assumed by the government. A Sector Policy Letter has been published in February 2003, spelling out these objectives and measures to achieve them. The World Bank will fund technical assistance to strengthen financial management. In addition, the treasury and the Postal Service will settle outstanding cross-debts, including claims accumulated in the context of clearing postal checks. Finally, should the spin-off of financial services require recapitalization of the postal service, the government will seek concessional external financing and ensure that a budget appropriation is made, if necessary in a supplementary budget in 2003.

### **E. External Sector Policy**

56. The external current account deficit (excluding grants) is expected to increase from 6.3 percent of GDP in 2002 to 7.6 percent of GDP in 2003, reflecting changes in the trade balance. The projections for 2003 show a financing gap to be covered by IMF disbursements under the new PRGF arrangement, as well as IDA disbursements envisaged under the base scenario of the World Bank's Country Assistance Strategy and by the African Development Bank. Support from multilateral organizations should suffice to cover projected gaps over the medium term.

57. More generally, balance of payments projections reveal more clearly than ever the sensitivity of the economy to exogenous shocks, particularly as regards the terms of trade (primarily the prices of groundnuts and petroleum) and weather conditions. In view of the considerable uncertainty surrounding global petroleum prices, the government will consult Fund staff if petroleum prices increase by 30 percent over the level projected under the program, or if petroleum price increases would put the achievement of program objectives at risk.

58. Reaching the **completion point** under the enhanced HIPC Initiative by end-2003 will require a complete update of the debt sustainability analysis (DSA) prepared in June 2000 for the decision point. This update will be carried out jointly by the government and World Bank and Fund staff.

### **F. Private Sector Development, Governance, and Judicial Reform**

#### **Private sector development**

59. A policy letter on private sector development, under preparation, is expected to be adopted by end-April 2003. In addition, in November 2002, the government set up a Presidential Investment Council to ensure a dynamic approach towards promoting private investment. The policy letter will be followed by an action plan, which will focus on the



following key measures: improving the investment climate, facilitating private sector participation and strengthening competitiveness, human and institutional capacity-building in support of the private sector, and the implementation of sectoral strategies in sectors such as tourism, the cultural industry, textiles and the clothing industry, and new information technologies and communications (NITC).

### **Good governance**

60. The government has decided to strengthen public performance within the framework of a program on good governance covering six components, including improvements in the quality of public services, economic governance, and judicial governance. Upon completion of the reform, the administration will be strictly managed, adhering to mechanisms of transparency, control, merit, and clearly defined sanctions, with a view to maximizing efficiency and outcomes, and minimizing unnecessary costs. Moreover, a new procurement code has been adopted.

### **Judicial reform**

61. The government intends to promote a credible, swift, and effective justice system, by (i) reinforcing human resources by hiring 15 judges and 20 clerks per year, (ii) providing ongoing training for judges and clerks, and (iii) modernizing the offices of court clerks, through organizational reforms and computerization, to improve their functioning, as well as renovating facilities.

### **Improvements of the statistical system**

62. The government has implemented a number of measures aimed at improving the quality and coverage of the statistical system and the dissemination of economic and social data. To this end, a workshop was held in December of 2002 with the participation of AFRISTAT, to valid the national accounts for the period 1996-2001 in accordance with the methodology of the 1993 United Nations System of National Accounts (SNA93).

63. To increase the reliability of statistical data, the government plans to set up a National Statistics and Demographic Institute by end-June 2003 at the latest. A draft law and decrees that allow creating such structures have been prepared, and the approval process is under way.

## **G. Program Monitoring**

64. Implementation of the program will be monitored by means of the quantitative indicators and structural performance criteria, as well as quantitative indicators and structural benchmarks. These are described in detail, together with several prior actions for the start of the arrangement, in the attached technical memorandum of understanding.

## Schedule for Public Expenditure Management Reforms

### Current status of the system:<sup>5</sup>

- A new expenditure management software was installed in January 2002, but currently it is operating only in the General Directorate of Finance (Financial Operations Control (FOC) and Budget Directorate) and does not cover the treasury. The areas covered by this software should eventually also include the spending ministries;
- A number of problems have arisen following the installation of this software at the same time when a new budget classification was introduced. It was therefore not possible in the FY 2002 to report monthly and line-by-line commitments, payment orders, and payments;
- Procurement procedures that had been neither transparent nor compliant with international standards were reformed, following the issuance of a new decree spelling out the government Procurement Code in May 2002. It is still too early to assess whether the implementation of the new decree corrects the shortcomings;
- The adoption of the new WAEMU budget classification at the same time when the new expenditure management software was installed has caused a slow execution of expenditures by ordinary procedures and, in turn, the use of extraordinary procedures. The latter had not been fully regularized by December 2002;
- The use of the deposit accounts of certain correspondents has caused a temporary increase in budget execution rates without an actual disbursement having occurred, which can constitute a bad budget execution practice;
- The completion of ex-post budget execution controls within prescribed periods is hampered by delays in the production of the budget and treasury accounts (*comptes administratifs et comptes de gestion*), in particular for 1997 and 1998. In January 2003, laws on the final public accounts had not yet been passed for the years since the FY 1997.

### Objectives of the reforms:

The goal is to obtain comprehensive information about the entire expenditure process, so as to monitor expenditures from the amounts approved in the budget law to the amounts actually executed and verified ex post by the Audit Office. The information would also include the amounts committed and the amounts for which a payment order had been issued.

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<sup>5</sup> The authorities are carrying out a diagnostic analysis with the cooperation of the World Bank and possibly the IMF Fiscal Affairs Department.

- The scheme should be based on the use of a budget classification (as regards information handled by the Budget Directorate) and a chart of accounts (as regards information handled by the treasury), that are mutually consistent;
- It should also be based on a data-sharing system that uses compatible software and databases, such as those that are being adopted by the FOC and the Budget Directorate, linking the various participants in the expenditure process (chronologically in the process: spending ministries, FOC, Budget, Treasury);
- It should gradually encompass all types of expenditures in addition to those currently covered (equipment and investment), in particular wage bill spending.

**Actions to be taken:**

IMPLEMENTATION OF THE NEW CHART OF ACCOUNTS (treasury)

- Issuing decrees to adopt the WAEMU directives on the system of public accounts (*Comptabilité publique*) (February 2003), on the chart of public accounts (*Plan Comptable*), and on the government financial operations table (*TOFE*) (first quarter 2003);
- Actual implementation of the WAEMU chart of accounts, upon entry into force of the corresponding decree (first quarter 2003), using the existing accounting software as long as the ASTER software package has not yet been installed.

EXTENSION OF THE COMPUTER SYSTEM WITHIN THE MINISTRY OF FINANCE

- Start using the data-sharing system in the Budget Directorate and in the Debt and Investment Directorate, with a view to reporting monthly, on a test basis, on commitments and payment orders by major spending lines (starting end-2002);
- Incorporate wage bill spending into the expenditure management software (starting end-2003);
- Link this information system to a similar system developed at the treasury, with a view to monitoring execution line by line. Report monthly, on a test basis, payment orders and payment reports by major spending lines (starting at the end of the second quarter of 2003 for the system tested at the treasury, and starting in January 2004 with the publication of definitive figures);
- Activate the interface links between the Tax Directorate, the Customs Directorate, and the Treasury, with a view to publishing monthly, on a test basis, reports on the direct and indirect tax yields that (i) would have been collected had all tax payments been received as due, and (ii) on the amounts actually collected (starting January 2004);

- Use the interface link between the data systems of the Budget Directorate and the treasury when compiling the budget and treasury accounts (*comptes administratifs et comptes de gestion*), as of FY2004.

***Other measures to increase transparency in public expenditure management***

MEASURES INVOLVING THE TREASURY AND THE BUDGET DIRECTORATE (starting early 2003)

- Issue a provisional exit balance (*balance de sortie*) as of December 31, 2002 (March 2003);
- Settle the stock of cash advances (*avances de trésorerie*—AT) and advance payments (*paiements par anticipation*—PPA)—relating to both to current non-wage non-interest expenditure and to investment expenditure—that has been accumulated in the FY2002. The amount will be zero at the end of the complementary period (February 2003);
- Starting in FY2003, do not hold, at the end of each month, a stock of AT and PPA larger than CFAF 28.2 billion;
- Starting in FY2003, do not hold a total stock larger than CFAF 20 billion in net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local governments, of public agencies, of SN La Poste, of IPRES, and of the guarantee and consignment accounts.

**Audit Office**

- Continue to increase the staff of the Audit Office and augment its logistical resources;
- Make arrangements to foster the passage of the budget review laws for FY1997 and FY1998 in the first half of 2003 and for FY1999, FY2000, and FY2001 by December 2003.

INTERNATIONAL MONETARY FUND

SENEGAL

**Technical Memorandum of Understanding**

Dakar, April 10, 2003

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

**I. DEFINITION**

2. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with separate legal personality.

**II. QUANTITATIVE PERFORMANCE CRITERIA**

3. In the context of this program, quantitative performance criteria will be set for June 30, 2003, and December 31, 2003, for the basic fiscal balance excluding temporary costs of structural reforms and spending financed with resources made available as a result of debt relief under the HIPC Initiative (HIPC-related resources); the change in net bank credit to the government; and the stock of arrears of SENELEC. For March 31, 2003, and September 30, 2003, indicative targets will be set for the same items. The performance criteria pertaining to the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government, as well as domestic and external payments arrears, will be monitored on a continuous basis.

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

**Definition**

4. The basic **fiscal balance** is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure financed from abroad and gross lending. It includes the balance of special and correspondent accounts at the treasury. Temporary costs of structural reforms and spending financed with HIPC-related resources are excluded from the definition of the basic balance for the purposes of program monitoring and evaluation. Expenditures counting as "temporary costs of structural reforms" are listed, on an indicative basis, in the table below. It is envisaged that a plan detailing

spending for temporary costs of structural reforms will be specified in a supplementary budget later in 2003, after consultations with Fund staff. In this supplementary budget, also the expenditures to be financed with not-yet allocated HIPC-related resources will be defined.

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

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

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

	6/31/02 Est.	12/31/02 Est.	3/31/03 Indic. target	6/30/03 Criterion	9/30/03 Indic. target	12/31/03 Criterion
I. Budgetary revenue	321.6	662.0	169.1	359.2	538.6	728.3
II. Total expenditure and net lending	318.6	718.7	195.4	398.5	608.3	883.6
III. Capital expenditure financed from abroad	70.3	127.5	34.6	77.4	102.1	150.0
IV. Drawings on loans to be on-lent	1.7	8.0	2.4	4.0	9.6	16.0
V. Basic fiscal balance = I – (II – III – IV)	75.0	78.8	10.7	42.1	42.0	10.6
VI. Temporary costs of structural reforms	...	...	0.0	0.0	7.5	15.0
VII. Expenditures financed with HIPC- related resources	0.0	10.1	1.5	3.1	12.3	32.4
VIII. Basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC- related resources = V + VI + VII	75.0	88.9	12.2	45.2	61.8	58.1

### Performance criteria

5. The performance criteria for the basic fiscal balance excluding temporary costs of structural reforms and spending financed with debt relief under the HIPC Initiative are **floors** of CFAF 45.2 billion on June 30, 2003, and CFAF 58.1 billion on December 31, 2003. The indicative targets are floors of CFAF 12.2 billion on March 31, 2003, and CFAF 61.8 billion on September 30, 2003.

### Reporting requirements

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

data will be provided as soon as the final balances of the treasury accounts are available, but not later than **two months after the reporting of provisional data.**

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

#### Definitions

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

8. The change in net bank credit to the government as of the date for the quantitative performance criterion or benchmark indicated is defined as the difference between the stock on the date indicated and the stock on December 31, 2002.

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

	12/31/02 Estim.	3/31/03 Indic. target	6/30/03 Criterion	9/30/03 Indic. target	12/31/03 Criterion
I. Total government claims	251.6	231.3	247.4	255.6	235.0
II. Total government debts	359.2	346.7	342.7	351.5	346.1
III. Net bank credit to the government (II – I)	107.6	115.4	95.3	95.9	111.1
IV. Change in net bank credit to the government, cumulative from the beginning of the year	-74.3	7.8	-12.2	-11.7	3.5



**Adjusters**

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

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

	6/30/02	12/31/02	3/31/03	6/30/03	9/30/03	12/31/03
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
European Union	0.0	0.0	7.4	12.6	22.1	29.4
World Bank	0.0	33.2	0.0	0.0	0.0	5.2
African Development Bank	0.0	9.0	0.0	0.0	0.0	8.7
Taiwan	0.4	0.4	0.0	0.0	0.0	0.0
Other	0.0	1.5	0.0	0.0	0.0	0.0
Total	0.4	44.1	7.4	12.6	22.1	43.2

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

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

12. The ceiling will be adjusted for the difference between the amount of programmed costs for structural reforms and the actual costs of structural reforms. The ceiling will be lowered (increased) for expenditures on structural reforms that fall short of (exceed) the programmed amount for temporary costs of structural reforms.

13. The ceiling will be adjusted for the difference between programmed and actual privatization receipts. The ceiling will be lowered (raised) for privatization receipts that exceed (fall short) of the programmed amount. The programmed amount for privatization receipts is CFAF 0.0 billion at March 31, 2003; CFAF 0.0 billion at June 30, 2003; CFAF 1.1 billion at September 30, 2003; and CFAF 1.1 billion at December 31, 2003. In addition, the ceiling on net bank credit to the government will be lowered by the amount of

treasury bills issued in 2003 that are held by an entity or person outside the Senegalese banking system.

#### **Performance criteria**

14. The performance criteria for the cumulative change in net bank credit to the government under the program are ceilings of CFAF –12.2 billion on June 30, 2003, and CFAF 3.5 billion on December 31, 2003. The respective indicative targets are ceilings of CFAF 7.8 billion on March 31, 2003, and CFAF –11.7 billion on September 30, 2003.

#### **Reporting requirements**

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

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

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

#### **Definition**

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

#### **Performance criteria**

18. The performance criteria for the stock of arrears of SENELEC are ceilings of CFAF 0.0 billion on June 30, 2003 and on December 31, 2003. The respective indicative targets are ceilings of CFAF 0.0 billion on March 31, 2003 and on September 30, 2003.

#### **Reporting requirements**

19. The government will report to Fund staff monthly, with a lag of no more than one month after the end of each period of observation, the stock of arrears of SENELEC, the newly contracted debt, any new accumulation of arrears, and the debt service and arrears payments made.

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

### **Definition**

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

21. The definition of debt as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: "(a) For the purposes of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a), arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

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

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

**Performance criterion**

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

**Reporting requirements**

25. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

**D. External Payments Arrears**

**Definition**

26. External payments arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government. Debt is understood as defined in paragraph 21.

**Performance criterion**

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

**Reporting requirements**

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

### E. Domestic Payments Arrears

#### Definition

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

#### Performance criterion

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

#### Reporting requirements

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

#### INDICATIVE TARGETS

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

	6/30/02	12/31/02	3/31/03	6/30/03	9/30/03	12/31/03
	Est.	Est.	Ind. target	Ind. target	Ind. target	Ind. target
Tax revenue	316.1	627.3	166.1	353.2	521.7	698.5
Wage bill	99.7	199.4	51.8	103.6	154.4	207.4
Current nonwage non-interest expenditures and domestically financed capital expenditures executed through exceptional payments procedures	82.4	74.3	28.2	28.2	28.2	28.2
Creditor flow in the treasury accounts of SN la Poste (postal service)	-5.2	-6.7	-2.0	-2.0	0.0	0.0
Stock of net deposits in the correspondent accounts of the treasury, excl. local authorities, public agencies, SN La Poste, IPRES and deposit and guarantee accounts	24.1	25.4	20.0	20.0	20.0	20.0
Stock of guarantee deposits of the government	4.5	4.5	2.5	2.5	0.0	0.0
Stock of debt of SONACOS	NA	NA	22.3	11.0	0.0	0.0
Basic balance of SENELEC	7.8	20.1	7.0	14.1	22.5	30.1

### **A. Floor on Tax Revenue**

#### **Definition**

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

#### **Indicative targets**

33. The indicative targets set for tax revenue are floors of CFAF 166.1 billion on March 31, 2003, CFAF 353.2 billion on June 30, 2003, CFAF 521.7 billion on September 30, 2003, and CFAF 698.5 billion on December 31, 2003.

#### **Reporting requirements**

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

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

#### **Definition**

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

#### **Indicative targets**

36. The indicative targets set for the wage bill are ceilings of CFAF 51.8 billion on March 31, 2003, CFAF 103.6 billion on June 30, 2003, CFAF 154.4 billion on September 30, 2003, and CFAF 207.4 billion on December 31, 2003.

#### **Reporting requirements**

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

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

#### **Definition**

38. Current nonwage non-interest expenditures are all current expenditures other than wage and interest payments as reported in the government financial operations table.

Domestically financed capital expenditures are all capital expenditures that have not been financed from abroad. Exceptional payments procedures are advance payments (*paiements par anticipation*) and treasury advances (*avances de trésorerie*).

### **Indicative targets**

39. The indicative targets set for the sum of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional budgetary procedures are ceilings of CFAF 28.2 billion on March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003.

### **Reporting requirements**

40. During the program period, the authorities will report monthly to Fund staff **provisional data** on current non-wage non-interest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than **two months after the reporting of provisional data**.

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

#### **Definition**

41. The stock of net deposits in the correspondent accounts of the treasury is defined as the sum of the net credit balance in the entry balance sheet (*balance d'entrée*) of the considered year and the net inflows in those accounts during the considered period. In the standard list of correspondent accounts of the treasury, the correspondent accounts excluded from this benchmark are: the accounts of local authorities, numbered 433-1 through 433-3; the accounts of public agencies, numbered 420-016 through 420-019 and 430-050 through 430-292; the accounts of SN La Poste, numbered 432-00 through 432-03; the account of IPRES with the number 434-105; and the deposit and guarantee accounts, numbered 441-001 through 441-020.

### **Indicative targets**

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

### **Reporting requirements**

43. During the program period, the authorities will report monthly to Fund staff **provisional data** on net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, of public agencies, of SN La Poste, of IPRES and of deposit and guarantee accounts, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than **two months after the reporting of provisional data**.

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

#### **Definition**

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

#### **Indicative targets**

45. The indicative targets for the creditor flow of the SN La Poste treasury accounts are floors of CFAF -2.0 billion at March 31 and June 30, 2003, and of CFAF 0.0 billion at September 30 and December 31, 2003.

#### **Reporting requirements**

46. The government will report to Fund staff the provisional flows of the SN La Poste accounts on a monthly basis, with a lag of no more than 45 days.

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

#### **Definition**

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

#### **Indicative targets**

48. The indicative targets for the stock of guarantee deposits are ceilings of CFAF 2.5 billion at March 31 and June 30, 2003, and of CFAF 0.0 billion at September 30 and December 31, 2003.



### **Reporting requirements**

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

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

### **Definition**

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

### **Indicative targets**

51. The indicative targets for the stock of debt of SONACOS are ceilings of CFAF 22.3 billion on March 31, 2003, CFAF 11.0 billion on June 30, 2003, CFAF 0.0 billion on September 30, 2003, and CFAF 0.0 billion on December 31, 2003.

### **Reporting requirements**

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

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

### **Definition**

53. The basic balance of SENELEC (line S of Table 10) is defined as the difference between (i) total receipts from its clients, on a gross-of-tax basis, including the administration (excluding subsidies), and arrears collected, on a cash basis; and (ii) current operating expenses on a gross-of-tax, invoice basis, including energy, personnel, other operating expenses, fees collected by SENELEC on behalf of other entities, and its net financial charges (interest, fees, and commissions).

### **Indicative targets**

54. The indicative targets for the basic balance of SENELEC are floors of CFAF 7.0 billion on March 31, 2003, CFAF 14.1 billion on June 30, 2003, CFAF 22.5 billion on September 30, 2003, and CFAF 30.1 billion on December 31, 2003.

### **Reporting requirements**

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

## **IV. PRIOR ACTIONS, STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS**

### **A. Prior Action I**

56. Issue decrees adopting the three directives on expenditure management established by the West African Economic and Monetary Union concerning the government financial operations table (*TOFE*), the chart of public accounts (*Plan comptable*), and the system of public accounts (*Comptabilité Publique*).

### **B. Prior Action II**

57. Publish the new Energy Sector Policy Letter.

### **C. Structural Performance Criterion I**

58. Issue a tender for the concession of an Independent Power Producer (IPP) to operate a 60 MW production plant, under the conditions outlined in the new Energy Sector Policy Letter by June 30, 2003.

### **D. Structural Performance Criterion II**

59. Issue an international tender for the privatization of SONACOS by July 31, 2003.

### **E. Structural Performance Criterion III**

60. Publish on an experimental basis monthly treasury accounts (*balance de comptes*) coherent with the new chart of public accounts for the period March through July 2003 by September 30, 2003.

### **F. Structural Benchmark I**

61. Submit the end-year treasury accounts (*comptes de gestion*) for the fiscal years 1998, 1999, 2000, and 2001 by August 31, 2003, to the Audit Office (*Cour de Comptes*).

### **G. Structural Benchmark II**

62. Adopt the SNA 93 and publish the 2001 preliminary national accounts on that basis by April 30, 2003.

### **H. Structural Benchmark III**

63. Publish a semiannual audit report on SENELEC's preliminary account as of end-June 2003 by September 30, 2003.

### **V. ADDITIONAL INFORMATION FOR PROGRAM MONITORING**

64. The authorities will report to Fund staff the following, with a maximum delay of 45 days:

- a preliminary monthly government financial operations table;
- tax and customs assessments by categories, accompanied by the corresponding revenue collected by the treasury on a monthly basis;
- monthly amount of payment orders issued;
- preliminary treasury account balances, on a monthly basis;
- the quarterly report of the Direction de la Dette et des Investissements on execution of investment programs; and
- any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.

65. The central bank will report to Fund staff the following:

- the monetary survey, on a quarterly basis, with a lag of no more than two months;
- lending and deposit rates, on a monthly basis; and
- the usual banking supervision indicators for bank and nonbank financial institutions, on a quarterly basis.

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

	March 31	June 30	September 30	December 31
	Indicative Target	Performance Criterion	Indicative Target	Performance Criterion
<b>Quantitative Performance Criteria and Indicative Targets</b>				
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 2/	12.2	45.2	61.8	58.1
Ceiling on the cumulative change in net bank credit to the government 3/	7.8	-12.2	-11.7	3.5
Ceiling on government domestic payments arrears 4/	0.0	0.0	0.0	0.0
Ceiling on government external payments arrears 4/	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 4/	0.0	0.0	0.0	0.0
Ceiling on the stock of arrears of SENELEC	0.0	0.0	0.0	0.0
<b>Indicative Targets</b>				
Floor on tax revenue	166.1	353.2	521.7	698.5
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures, i.e., advance payments or treasury advances	28.2	28.2	28.2	28.2
Ceiling on the wage bill	51.8	103.6	154.4	207.4
Floor on the creditor flow in the treasury accounts of the postal service	-2.0	-2.0	0.0	0.0
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	20.0	20.0	20.0	20.0
Ceiling on guarantee deposits of the government	2.5	2.5	0.0	0.0
Ceiling on the stock of debt of SONACOS	22.3	11.0	0.0	0.0
Floor on the basic balance of SENELEC	7.0	14.1	22.5	30.1
<b>Memorandum items:</b>				
External budgetary assistance, excluding IMF	7.4	12.6	22.1	43.2
Grants	7.4	12.6	22.1	29.4
Loans	0.0	0.0	0.0	13.9
Programmed spending of HIPC debt relief	1.5	3.1	12.3	32.4

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

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

3/ Includes prospective IMF disbursements.

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

Table 2. Senegal: Quarterly Government Financial Operations, 2003

	March	June	September	December
(In billions of CFA francs, cumulative from the beginning of the year)				
Total revenue and grants	195.3	416.8	613.2	832.6
Revenue	169.1	359.2	538.6	728.3
Tax revenue	166.1	353.2	521.7	698.5
Nontax revenue 1/	3.0	6.0	16.9	29.8
Grants	26.2	57.6	74.6	104.4
Budgetary	7.4	12.6	22.1	29.4
Budgeted development projects	18.8	45.0	52.5	75.0
Total expenditure and net lending	195.4	398.5	608.3	883.6
Current expenditure	120.9	248.4	373.1	509.8
Wages and salaries	51.8	103.6	154.4	207.4
Interest due 1/	10.2	19.6	28.1	38.9
Of which : external	7.7	15.7	22.8	30.6
Other current expenditure	58.9	125.2	190.6	263.5
Goods and services	26.5	59.6	92.8	132.5
Transfers and subsidies	32.4	65.6	97.9	131.0
Capital expenditure	65.7	139.6	209.6	318.1
Domestically financed	31.1	62.2	107.5	168.1
Externally financed 2/	34.6	77.4	102.1	150.0
Treasury special accounts and correspondents (net)	8.0	9.0	8.0	8.0
Net lending	0.8	1.4	2.7	8.0
Additional HIPC Initiative expenditures (to be identified)	0.0	0.0	7.4	24.7
Temporary costs of structural reforms	0.0	0.0	7.5	15.0
Overall fiscal balance (including grants)	-0.1	18.3	4.9	-51.0
Overall fiscal balance (excluding grants)	26.1	75.9	79.5	53.4
Excluding trans. costs of structural reforms and HIPC Initiative	27.6	79.0	99.4	100.8
Basic fiscal balance 3/	10.7	42.1	42.0	10.6
Excluding temp. costs of structural reforms and HIPC Initiative	12.2	45.2	61.8	58.1
Financing	0.1	-18.3	-4.9	51.0
External financing	12.0	18.2	33.6	50.2
Drawings	18.2	36.4	59.2	91.0
Treasury 5/	0.0	0.0	0.0	0.0
Project loans	18.2	36.4	59.2	91.0
Amortization due	-13.1	-30.4	-44.7	-65.5
Debt relief and HIPC Initiative interim assistance 4/	6.9	12.2	19.2	24.7
Domestic financing	-11.9	-39.5	-41.6	-19.1
Banking system 5/	7.8	-15.2	-14.7	-2.5
BCEAO	13.5	-8.3	-24.9	-11.4
Statutory advances	0.0	-1.6	-3.1	-4.7
Treasury bonds	-0.9	-0.9	-1.8	-1.8
IMF (net) 5/	-5.9	-10.1	-15.9	-21.5
Changes in deposits and treasury cash holdings	20.3	4.2	-4.0	16.6
HIPC account	-6.6	-11.2	-10.1	7.7
Other treasury accounts and cash holdings	26.9	15.4	6.1	8.9
Commercial banks	-5.7	-6.9	10.2	8.9
Maturing of old government paper	-5.7	-6.9	-12.8	-14.1
Emission of new t-bills	0.0	0.0	23.0	23.0
Deposits and "obligations cautionnees"	0.0	0.0	0.0	0.0
Nonbank financing	-19.7	-24.3	-26.9	-16.6
Of which : privatization receipts	0.0	0.0	1.1	1.1
Of which: complementary period	-14.9	-14.9	-14.9	0.0
Errors and omissions	0.0	0.0	0.0	0.0
Financing gap 5/	0.0	3.0	3.0	19.9
IMF	0.0	3.0	3.0	6.0
World Bank	0.0	0.0	0.0	5.2
Other	0.0	0.0	0.0	8.7
Memorandum items:				
Bank financing, including IMF disbursements under under the new PRGF-supported arrangement	7.8	-12.2	-11.7	3.5
Total HIPC spending	1.5	3.1	12.3	32.4

Sources: Senegalese authorities; and staff estimates and projections.

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

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

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

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

5/ Prospective IMF disbursements under the new PRGF-supported arrangement are not included.

Table 3. Senegal: Prior Actions, Structural Performance Criteria and Benchmarks for the First Annual Program, 2003

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**Prior Actions**

- Issue decrees adopting the three directives on expenditure management established by the West African Economic and Monetary Union concerning the government financial operations table (*TOFE*), the chart of public accounts (*Plan comptable*), and the system of public accounts (*Comptabilité Publique*).
- Publish the new Energy Sector Policy Letter.

**Performance Criteria**

- Issue a tender for the concession of an Independent Power Producer (IPP) to operate a 60 MW production plant, under the conditions outlined in the new Energy Sector Policy Letter by **June 30, 2003**.
- Issue a tender for the privatization of SONACOS by **July 31, 2003**.
- Publish on an experimental basis monthly treasury accounts (*balance de comptes*) coherent with the new chart of public accounts for the period March through July 2003 by **September 30, 2003**.

**Benchmarks**

- Adopt the SNA 93 and publish the 2001 preliminary national accounts on that basis by **April 30, 2003**.
  - Submit the end-year treasury accounts (*comptes de gestion*) for the fiscal years 1998, 1999, 2000, and 2001 to the Audit Office (*Court de Comptes*) by **August 31, 2003**.
  - Publish a semi-annual audit report on SENELEC's preliminary accounts as of end-June 2003 by **September 30, 2003**.
-

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

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

<b>II. General Resources Account:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	161.80	100.0
Fund holdings of currency	160.35	99.1
Reserve position in the Fund	1.45	0.9

<b>III. SDR Department:</b>	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	24.46	100.0
Holdings	0.76	3.11

<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Poverty Reduction and Growth Facility (PRGF) arrangements	179.82	111.14

**V. Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
PRGF <sup>1</sup>	April 20, 1998	April 19, 2002	107.01	96.47
PRGF	August 29, 1994	January 12, 1998	130.79	130.79
Stand-By Arrangement	March 2, 1994	August 29, 1994	47.56	30.91

**VI. Projected Obligations to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	22.0	33.3	31.2	26.2	23.8
Charges/interest	1.3	1.2	1.0	0.8	0.7
Total	22.3	34.4	32.1	26.9	24.5

<sup>1</sup> Approval based on EBS/98/6 (4/6/1998); extension of commitment period February 16, 2001 (EBS/01/9; 1/31/01).

**VII. Poverty Reduction Strategy Paper**

<u>Document Type</u>	<u>Document Number</u>	<u>Board Consideration</u>
Interim poverty reduction strategy paper (I-PRSP)	EBD/00/44	06/09/2000
Joint staff assessment of I-PRSP	EBD/00/45	06/09/2000
Full poverty reduction strategy paper	EBD/02/145	12/18/2002
Joint staff assessment of PRSP	EBD/02/158	12/18/2002

**VIII. Implementation of HIPC Initiative:<sup>2</sup>**

	<u>Enhanced Framework</u>
Commitment of HIPC Initiative assistance	
Decision point date	June 21, 2000
Assistance committed (NPV terms) <sup>3</sup>	
Total assistance (US\$ million)	488.3
<i>Of which:</i> Fund assistance (SDR million)	33.8
Completion point date (expected)	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	8.16
Interim assistance	8.16
Completion point <sup>4</sup>	...
Amount applied against member's obligations (cumulative)	8.16

**IX. Safeguards Assessments:**

The Central Bank of the West African States (BCEAO) is the common central bank of eight west African states, which include Senegal. An on-site safeguards assessment of the BCEAO

<sup>2</sup> Senegal was not eligible for the HIPC Initiative under the original framework.

<sup>3</sup> NPV (net present value) terms at the decision point under the enhanced framework.

<sup>4</sup> Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.



completed on July 25, 2001, proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although the Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies.

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

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

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

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

Senegal is a member of the West African Monetary Union (WAMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1. On January 31, 2003, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 828.06.

Aspects of the exchange system are also discussed in the recent report on economic developments and regional policy issues of WAEMU (SM/03/75; 2/21/03).

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

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

Senegal is on the standard 12-month Article IV consultation cycle. The 2001 Article IV consultation was completed by the Executive Board on September 28, 2001 (EBS/01/151; 8/31/01, and SM/01/276; 8/30/01). In concluding the Article IV consultation, Executive Directors noted that the authorities had maintained an appropriate budgetary stance over the

year despite spending pressures that arose in the run-up to the legislative elections. Directors considered that the long-standing structural problems in the groundnut and electricity sectors and in the postal service were in large part the causes of recent difficulties in these public enterprises. Accordingly, Directors urged the authorities to address the economy's continuing fragility by implementing structural reforms, emphasizing the importance of limiting the government's involvement in the groundnut sector and of privatizing the electricity sector. Directors noted the generally healthy state of the financial system, endorsed the findings of the Financial System Stability Assessment (FSSA), and urged the authorities to implement its recommendations. Finally, Directors stressed the need to better target and track government spending in priority areas, to improve the transparency of the treasury operations, and to strengthen public expenditure management systems.

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

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (SM/01/272; 8/24/01). A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002.

**XIII. Technical Assistance:**

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	February– March 1996	Strengthening of tax and customs administration.
FAD	Staff/consultants	January– February 1998	Assessment of revenue impact of new external tariff structure (TEC). Advice given to authorities on measures to correct revenue shortfall stemming from the introduction of TEC.
FAD	Staff/consultants	March 1999	Assessment of the reforms to value-added tax (VAT) required to offset the fiscal impact of the TEC.
STA	Staff	March-April 2000	Assessment of real sector statistics and proposal of improvements.
FAD	Staff/consultants	May 2000	Assessment of macrofiscal practices and review of the operation of special accounts at the treasury.

FAD	Staff/consultants	October 2000	Budgetary aspects of petroleum sector policies.
STA	Staff	April 2001	Assessment of the statistical capacity of the Directorate of Forecasting and Statistics.
STA	Staff	September 2001	ROSC assessment of data.
FAD	Staff/consultant	September 2001	Assessment of capacity to track poverty-reducing expenditures.
STA	AFRISTAT	July 2002	Real sector statistics assessment Mission, under GDDS West Africa project.
STA	AFRISTAT	August 2002	National accounts assistance under GDDS West Africa project.
STA	Regional advisor	August 2002	Continued assistance with fiscal sector data under GDDS West Africa project.
STA	AFRISTAT	December 2002	Continued assistance with national accounts and prices statistics under GDDS West Africa project
STA	Regional advisor	February 2003	Continued assistance with fiscal sector data under GDDS West Africa project.

#### **XIV. Resident Representative**

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Koffi Yao since March 25, 2000.

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

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

**Senegal: IMF-World Bank Relations**  
(As of February 25, 2003)

**Partnership in Senegal's development**

1. In May 2002, the Government of Senegal outlined its development strategy in a poverty reduction strategy paper (PRSP). The PRSP was presented to the Bank and Fund Boards in December 2002. The government intends to provide a complete update of the strategy in late 2003–early 2004. The PRSP sets out the following pillars of the government's strategy: (i) creation of wealth within a healthy macroeconomic framework, (ii) capacity-building and promotion of basic social services, (iii) improvement of the living conditions of vulnerable groups, and (iv) implementation and monitoring/evaluation (for details, see Appendix VI).
2. Regarding the division of responsibilities between the Bretton Woods institutions, the Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance by way of quantitative performance criteria and indicators. In addition, the Fund's Poverty Reduction and Growth Facility (PRGF) contains structural conditionality in such areas as electricity and groundnut sector reform, which have a direct bearing on macroeconomic stability and growth prospects.
3. The PRSP and its comprehensive poverty analysis provide the framework for the Bank's Country Assistance Strategy (CAS) that is in preparation. The Bank is supporting the implementation of the PRSP in the areas of health/nutrition, education, HIV/AIDS, rural development, transport, water, and urban development through the implementation of a portfolio of specific projects, as outlined more fully below.

**Bank Group strategy and Bank portfolio**

*Lending*

4. IDA has been lending to Senegal since 1966. The main objective of the Bank's assistance strategy for Senegal has been to reduce the incidence of poverty and improve employment. The approved lending program for the period fiscal-year (FY) 1998-2000 under the CAS was implemented satisfactorily. To achieve the objective of the CAS, Bank support followed a two-pronged strategy: (i) supporting policies and programs conducive to more rapid and sustained growth; and (ii) ensuring the social sustainability of these programs. The strategy was implemented through a combination of structural adjustment lending, sector investment programs (SIPs), specific investment lending, and nonlending operations.
5. As of December 31, 2002, the World Bank had approved 124 credits for Senegal for a total amount of about US\$2.4 billion. Past projects supported agricultural diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, the emphasis has shifted to better utilizing and maintaining existing facilities and to helping the government resolve some of the key issues hampering long-term development prospects. The current active portfolio has a commitment value of about US\$781 million equivalent, with an

undisbursed amount of about US\$540 million. The portfolio is composed of 20 credits in various sectors (agriculture and human resources, including population/health/nutrition/education, HIV/AIDS, infrastructure/urban development, energy/water, industry, and private sector development) and one grant for sustainable participatory energy management.

### *Sector issues*

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

7. Education expenditures are unduly skewed toward higher education, which hampers the development and the quality of primary education. Faced with a policy leading to, inter alia, intrasectoral allocation of resources that favor universities, the Bank suspended the Higher Education project in July 2001. The government of Senegal has started to take corrective action to overcome these and other (management and technical) problems that were impeding the implementation of the project. IDA lifted the suspension in November 2002, and the government agreed to a partial cancellation of the respective credit. In 1999, the government adopted a ten-year program (PDEF), with the ultimate objective of reaching universal primary education by the year 2008 (up from 60 percent of gross primary enrollment in 1999). A Quality Education For All project (QEFA- Education SIP) covers the first three years of the ten-year program. Under the QEFA project, the government committed itself to hiring 2000 elementary school teachers annually for at least the next three years. The government has also shifted to hiring teachers on a contract basis at more affordable salaries and also hires “volunteer” teachers who are paid a nominal sum. Much of the responsibility for school construction and school management, including teacher hiring, would be decentralized to the regions and to the local authorities, an evolving process that is already under way.

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

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

management. Pilot operations have begun to decentralize the management of rural transport infrastructure.

10. Owing to global difficulties in the energy sector, the privatization of the electricity parastatal, SENELEC, has been put on hold for the near future. The Bank is supporting the Government in improving management at SENELEC and advising a national energy task force in planning for investments in new production capacity. Petroleum prices were frozen between February 2000 and June 2001, with a onetime increase of 15 percent in September 2000. Since then they have been adjusted based on import parity calculations in accordance with a 1998 law on a monthly basis, but prices remain regulated by ministerial *arrêté* and are not liberalized in the true sense of the word.

11. As of September 30, 2002, credits from the International Finance Corporation's (IFC) portfolio totaled US\$30.6 million and included two projects in the financial sector, one fishery project, one leather-manufacturing operation, one cement factory project, one power project (the first independent power project in Senegal), and one project for a private school. Another operation, a small tourist hotel, was approved in fiscal year (FY) 01 but is not yet effective.

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

12. A new Country Assistance Strategy (FY 03-05) is in preparation. The CAS would support the Government's PRSP, based on the pillars of wealth creation and capacity building/development of social services. As regards infrastructure, the CAS would propose new lending services to support electricity sector development and expand small-scale urban infrastructure. With regard to private sector development, the CAS will support new lending for a private investment promotion operation, a private sector adjustment credit, and, possibly, an operation to strengthen the rural financial system. New lending services for rural development would include the preparation of the second phase of the Agricultural Services and Producers Organizations project, extended IDA investment in a proposed Agricultural Market Development Program, a program to support appropriate rural development activities in the Casamance region, and, possibly, an operation to develop a pilot land-titling program. As regards social services, new lending services would include the preparation of the second phase of the Quality Education for All project.

#### **Bank-Fund collaboration in specific areas**

13. The IMF and the World Bank staff maintain a close working relationship, especially with respect to (i) the implementation of the poverty reduction strategy, (ii) the implementation of measures to attain the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) completion point, (iii) reforms in public finance management, and (iv) structural measures in specific sectors, such as electricity and groundnuts, have systematic impact on the public finances and on macroeconomic stability and where the Bank has currently no lending program.

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

### Status of Bank Group Operations in Senegal—Operations Portfolio

(As of February 25, 2003; in millions of U.S. dollars)

Closed credits: 104

Credit No.	Active Projects Project Name	Fiscal Year	IDA	Undisb	Disb
3619-0	Nutrition	2002	14.7	14.5	1.5
3601-0	MAP II (HIV/AIDS)	2002	30.0	31.9	0
3470-0	Long-Term Water Sector	2001	125.0	127.2	5.8
3446-0	Social Development Fund Program	2001	30.0	27.5	4.5
3398-0	Distance Learning Center – LIL	2000	2.1	0.6	1.5
3354-0	Urban Mobility Improvement Project	2000	70.0	67.4	2.3
3333-0	Quality Education for All Program	2000	50.0	30.8	18.8
3315-0	National Rural Infrastructure	2000	28.5	23.2	4.4
3289-0	Public Service Info-Systems Modeling	2000	10.2	6.9	3.2
3219-0	Agricultural Services & Prod. Org.	1999	27.4	17.9	9.3
3183-0	Transport II	1999	90.0	76.5	11.0
3017-0	Agricultural Export Promotion	1998	8.0	4.0	4.0
3006-0	Urban Development and Decentralization	1998	75.0	35.7	38.2
2985-0	Integrated Health Serv. Development	1998	50.0	23.1	24.9
2972-0	Regional Power	1997	10.5	2.6	7.6
2963-0	Sustainable Part.Energy Management	1997	5.2	2.1	3.0
2951-0	Endemic Diseases	1997	14.9	9.6	4.9
2872-0	Higher Education	1996	26.5	5.0	18.5
2873-0	Pilot Female Literacy	1996	12.6	0.1	11.6
2758-0	Water Sector	1995	100.0	26.2	58.8
Total			780.5	532.8	233.8

### Statement of IFC's Held and Disbursed Portfolio

(As of November 30, 2002; in millions of U.S.dollars)

FY Approval	Institution Name	Held				Disbursed			
		Loan	Equity	Quasi	All	Loan	Equity	Quasi	All
		IFC Held	IFC Held	IFC Held	Part. Held	IFC Disb	IFC Disb	IFC Disb	Part. Disb
1996/97/98	AEF SERT	0	0.43	0	0	0	0.43	0	0
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	Ciments du Sahel	13.89	2.26	2.43	0	10.42	2.26	2.43	0
1997/98	GTI Dakar	7.86	1.61	0	9.48	7.86	1.27	0	9.48
1998	SEF Fanaicha	0.30	0	0	0	0.30	0	0	0
2001	SEF Royal Saly	1.11	0	0	0	0.40	0	0	0
Total portfolio:		23.16	4.77	2.43	9.48	18.97	4.43	2.43	9.48

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

BHS = Banque Habitat du Sénégal (financial).

CDS = Ciments du Sahel (cement factory).

GTI-DAKAR = Power project.

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

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



**Senegal: Statistical Issues**  
(As of February 25, 2003)

Overall, Senegal's economic database is comprehensive, but there are weaknesses in the data on national accounts, production, international trade, and social indicators. The authorities are strongly committed to improving the quality and availability of their databases, and for this they rely on technical assistance from the Fund and other international organizations. In order to strengthen the quality of Senegal's statistical database, a National Statistical Institute is being set up, as recommended by an STA mission (April 2001).

Senegal participates in the General Data Dissemination System (GDDS), and its metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 10, 2001.

A data Report on Observance of Standards and Codes (ROSC) mission, which took place in September 2001, carried out a review of Senegal's data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, consumer price, monetary, balance of payments, government finance, and income poverty statistics. The main findings of the mission were the following: (i) Senegal generally follows the recommendations of the GDDS for the coverage, periodicity, and timeliness of all data categories; (ii) improvements need to be made in data coverage (especially national accounts by institutional sectors), periodicity (especially quarterly government financial statistics), and timeliness (especially balance of payments, monetary, and poverty); and (iii) plans for improvement in these areas should address resource constraints, reinforce the legal framework for data collection and coordination, and clarify the responsibilities for dissemination of government operations, public debt, and monetary data. The mission also found that, while statistics were generally established on the basis of acceptable sources, those relating to government finance were weakened as a result of the absence of an integrated accounting source and the practice of not investigating revisions.

On October 17, 2002, the authorities conveyed to the Fund their observations on the draft data ROSC and their consent to the publication of the final version on the Fund website. The ROSC was published on December 2, 2002. An FAD mission for a ROSC on fiscal transparency is expected to visit Senegal in 2003.

Specific issues in various areas of statistics are discussed below.

**Real sector**

The national accounts compilation generally follows the *System of National Accounts, 1968*. While the staff demonstrates professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly in the informal sector. Owing to financial constraints, business and households surveys are not conducted regularly, which impedes the production of national

accounts estimates (e.g., input-output tables and institutional sector accounts are not compiled annually). However, efforts are being made to improve the data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. Work is under way to adopt the *System of National Accounts, 1993*, including updating the base year to 1999, and to improve the estimates for the informal activities.

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

### **Public finances**

Government finance statistics (GFS) data are compiled by the Ministry of Finance from the customs, tax, and treasury directorate sources. The authorities have not reported GFS data to STA for many years. In part to improve its GFS, Senegal started implementing recommendations made by a May 2000 FAD mission to correct a reported deterioration in the treasury accounts, as well as to integrate special accounts. Such groundwork could be instrumental for enhancing the compilation of a harmonized summary table of fiscal operations (TOFE).

### **Monetary data**

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

A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed outstanding methodological issues that concern all the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual* and discussed the modalities for introducing an *International Finance Statistics (IFS)* area-wide page for the WAEMU zone. The new page was introduced in the December 2002 issue of *IFS*.

### **Balance of payments data**

Balance of payments data for Senegal are compiled by the national agency of the BCEAO. A long-term adviser from STA was posted at BCEAO headquarters to provide technical

assistance to all BCEAO member countries (the posting ended in July 1999). With his support, several actions were undertaken in recent years to tackle balance of payments deficiencies. These included the following: (i) a methodology to integrate the new norms defined by the fifth edition of the *Balance of Payments Manual*; (ii) modified and simplified surveys for companies and banks; (iii) improvement in the computerization of procedures and (iv) significant strengthening of staff training. The definitive balance of payments data are provided with a delay of less than one year. Despite these improvements, further efforts will be necessary in order to enhance the quality and the coverage of data.

## Senegal: Core Statistical Indicators

(As of February 25, 2003)

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

1/ Economic Information System, EIS, IMF.

2/ Central Bank of West African States, BCEAO.

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

**Senegal: Status of the Enhanced HIPC Initiative**  
(As of February 25, 2003)

Senegal reached the decision point in June 2000 (see Decision Point Document<sup>1</sup>). In December 2002, the Executive Boards of the International Monetary Fund and the World Bank considered Senegal's poverty reduction strategy paper (see Appendix VI). The completion point, initially expected to be reached at end-2001, could be reached during the second half of 2003.

As regards the conditions for attaining the completion point spelled out in Senegal's Decision Point Document, macroeconomic performance has been satisfactory. However, there has been little improvement in the education and health sectors, and the completion point condition relating to privatization still needs to be fully adhered to as well.

**Macroeconomic and structural conditions**

- **Public savings.** The condition of a nonnegative basic fiscal balance condition was met for 2000 but not for 2001, owing to transfers to the parastatal companies SENELEC and SONACOS.
- **Private sector development.** So far, seven enterprises (out of eleven in the completion point condition) have been liquidated or privatized. Action plans for improving the private sector environment will be considered by the cabinet in early 2003.

**Poverty reduction conditions**

- The household budget survey has been completed, and the processing of the results is expected to be completed during the first half of 2003:
- **Education sector:** Although implementation of the IDA-supported Quality Education for All (QEFA) Program improved recently, the performance related to education sector conditions is mixed: (i) primary education as a share in the total education budget is rising (the allocation has increased from 40 percent in 1998 to 44 percent in 2003); however, the condition has not yet been fully met; (ii) in July 2002, the authorities indicated that the remaining two conditions—recruitment of teachers at the rate of 2,000 a year and employment on a contractual basis, with the elimination of the parallel recruitment of teachers into the civil service structure—had been satisfied. However, further information is needed so that the Bank can verify those figures.
- **Health sector.** The performance in health has continued to be weak, although the monitoring of the objectives of the IDA Integrated Health Sector Credit has been satisfactory. None of the three health sector conditions have so far been satisfied, and,

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<sup>1</sup> EBS/00/97.

until recently at least, indicators showed a deterioration: (i) performance with respect to **increased rates of child immunization against three most prevalent childhood diseases** has so far been very weak. A Bank supervision mission in May 2002 attributed this performance mainly to organizational and technical problems; (ii) the indicator for the **proportion of pregnant women receiving prenatal care** has worsened between 1997 and 2000. Figures for 2001 are not yet available; and (iii) the **utilization rate of primary health care centers** also worsened between 1997 and 2000. A certain number of centers remained closed until recently, owing to lack of personnel.

### **Senegal: Summary of the Poverty Reduction Strategy Paper**

The authorities completed their full poverty reduction strategy paper (PRSP) in May 2002 and submitted it to the Fund and the Bank in August 2002. The Executive Boards considered and discussed the Joint Staff Assessment in December 2002.

During the session of the Fund's Executive Board, Directors welcomed the PRSP as a sound basis for Senegal's fight against poverty and for concessional financing from the IMF. They commended the range and depth of public participation in the preparation of the document and the fact that the PRSP was consistently organized around themes of wealth creation, human development, and macroeconomic stability. At the same time, Directors noted the risks associated with the PRSP, in particular the need for a better link between social goals and poverty programs. Moreover, they stressed that the large infrastructure projects promoted by the President should be consistent with the macroeconomic framework of the PRSP. Directors asked the authorities to address these issues in their first annual progress report on the implementation of the poverty reduction strategy.

The **main features of the PRSP** are summarized below.

**Participatory process and poverty analysis.** The PRSP is the result of an extensive participatory process that involved the civil society (private sector and nongovernmental organizations (NGOs), donors, and the local administrations. A detailed poverty analysis was made on the basis of three surveys conducted across the country, including a household budget survey and a qualitative survey of perception of poverty. These surveys covered rural areas and provided detailed quantitative and qualitative data on the characteristics of poverty in Senegal, as well as information on priorities and policies desired by the poor. The processing of the household budget survey could not be entirely completed before the finalization of the PRSP. Thus, the PRSP presents a detailed but not complete discussion of the determinants of poverty.

**PRSP objectives and strategies.** The priority objectives of the PRSP, which draw on NEPAD objectives and preparatory studies for Senegal's tenth Economic and Social Development Plan, are as follows: (i) a doubling of per capita income by 2015, with a better distribution of income; (ii) a strengthening of human capital by increasing access to health and education resources by 2010; and (iii) eradication of all forms of exclusion and equality of genders, especially in primary and secondary education, by 2015. Based on these priority objectives and the results of the poverty analysis, the PRSP strategy is structured along four axes: (i) creation of wealth, (ii) increased access to social services, (iii) improvement of living conditions of vulnerable groups, and (iv) a decentralized approach to implementation and monitoring of the PRSP.

Along these four axes, the PRSP charts action plans that draw on a matrix of policies and measures covering economic sectors, social services (such as education, health, drinking water, transportation, and sanitation), protection of vulnerable groups (women, handicapped, children, elderly), macroeconomic management (governance, private sector development,

and macroeconomic framework) and PRSP implementation. In some areas, the PRSP states broad objectives and targets but leaves further elaboration of measures and implementation plans to the line ministries.

The measures in the priority action plan are costed and sequenced over the PRSP period. The total amount of additional investments in the PRSP envisaged over the 2003–05 period (excluding HIPC Initiative resources) is CFAF 267 billion (7.4 percent of 2002 GDP). This would come on top of the underlying investment budget of CFAF 1,053 billion (29.0 percent of 2002 GDP) over the same period, including HIPC Initiative resources.

**Involvement of regional authorities in implementation and monitoring.** The PRSP provides an institutional framework for implementation and monitoring, which distinguishes between the strategic level, where policies are formulated, and the operational level, where policies are implemented. The regional authorities are to be represented at both levels.

**PRSP growth scenarios.** The PRSP includes three growth scenarios. Whereas in 1995-2001, average real growth had been 5.5 percent, the “optimistic” scenario projects an average annual growth rate of 7.2 percent over 2003-05. The “medium” scenario projects an annual average growth of 6.5 percent and the “baseline” scenario one of 5.3 percent. The optimistic scenario is based on the assumption that all the projected additional investments will be carried out, and that private investment and saving accelerate rapidly. The medium scenario assumes implementation of half of the additional investment envelope, and the base scenario assumes no additional public investments; both scenarios incorporate a more moderate response of private sector activity to reform policies. The PRSP does not establish a direct link between the measures envisaged under the PRSP and the projected growth rates. The staff views the optimistic scenario as highly ambitious, and believes that growth rates over the PRSP period will more likely lie between the base and medium scenarios. As a consequence, more modest growth assumptions have been made for the macroeconomic framework underpinning the new three-year PRGF-supported program.

In October 2002, the Senegalese government organized a nationwide seminar to discuss the **implementation of the poverty reduction strategy**. The Minister Delegate in charge of the Budget headed the seminar. Discussions concentrated on methods to monitor strategy implementation, and on the defining of an institutional setting that would allow effective monitoring with the broad participation of civil society.



Senegal: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending				
Actions	Timing (S/M) 1/	Status (FI/II/NS) 2/	Date Achieved	Comments
Improve the presentation of consolidated investment budget (BCI)	S	FI	2002	Only short-term investments externally financed whose implementation is decided during the current fiscal year are not recorded.
Improve the functional nomenclature	S	II		West African Economic and Monetary Union (WAEMU) budgetary nomenclature has been used since January 1, 2002. Initial technical problems are being progressively overcome.
Introduce a medium-term expenditure framework (MTEF)	S	II	The PRSP was completed in May 2002 and discussed at the IMF Board in December 2002	The PTIP (programme triennal d'investissement public) offers a medium-term perspective on the capital budget; there is no such tool for current spending, although the PRSP somehow remedies this lack. A full-fledged medium-term framework for current spending is scheduled for 2005.
Strengthen the medium-term macroeconomic framework	S	II	May 2002	Completion of the PRSP, including three medium-term macroeconomic scenarios. But the link between PRSP and outer-year budget projections needs to be strengthened for the sake of consistency.
Introduce performance-based budgeting (PBB)	M	II	2002 fiscal year	PBB was introduced for the health and education sectors, and is to be extended to the judicial sector in 2004.
Bring together current and capital expenditures by ministry	S	FI	2002 fiscal year	Preparations of current and capital budgets were combined for each ministry.
Implement the five WAEMU directives in the fiscal area	S	II	Nov. 2001	Adoption of the directives on budgetary nomenclature and organic budget laws. Still to be adopted, during first half of 2003: the directives on <i>Comptabilité publique</i> , (summary table of fiscal operations (TOFE), and <i>Plan Comptable</i> .
Define a global public expenditure control policy	S	FI		Control on expenditure at the central government level is now centralized at the Ministry of Finance. A software recording all budgetary transactions is being developed.

Senegal: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending				
Actions	Timing (S/M) 1/	Status (FI/II/NS) 2/	Date Achieved	Comments
Create a financial control body in the MEF (Ordonnateur Principal de l'Etat) to replace the one at the Office of the President	S	FI	January 2002	A new financial body in the MEF, the COF (Contrôle des opérations Financières), created in January 2002, took over control responsibility on budget expenditure. The control body at the Office of Presidency is still responsible for controlling expenditures made by public companies and extrabudgetary agencies.
Improve the tracking of expenditure during the year	M	II		Software to follow budget execution at the MEF is being introduced. So far, it only includes the commitment phase. The payment phase should be shortly tracked too, as the treasury will be linked to the software in the first half of 2003.
Improve the tracking of expenditure through to end use	S	II		The World Bank recently completed its expenditure-tracking surveys in the health and education sectors.
Review institutional organization in each spending ministry	S	II	January 2002	A software to follow budget execution at the MEF is currently being introduced. It does not yet include upstream operations in each spending ministry. Consistency in tracking the expenditure process and using control manuals is needed.
Review public procurement code	S	FI	May 2002	The new procurement code was designed in cooperation with the World Bank.
Train MEF official in the new nomenclature budget	S	FI	August 2002	
Limit the use of exceptional expenditure procedures	S	II	Continuous	In 2002, use of exceptional expenditure procedures was exceptionally high, apparently because of technical difficulties in implementing the new budgetary nomenclature.
List the nature, frequency, and seriousness of the anomalies in the expenditure process	S	NS		The COF, after one year of operation, should shortly be able to quantify and analyze anomalies encountered in 2002.
Refocus responsibility for payment authorization to the	S	FI	January 2002	In line with the WAEMU Directive on organic budget laws adopted by Senegal, the power to give orders to pay rests

Senegal: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending				
Actions	Timing (S/M) 1/	Status (FI/II/NS) 2/	Date Achieved	Comments
MEF				with the MEF, and no longer with the President. However, payment authorization for capital expenditure is still given by DDI and not by the Direction du Budget.
Improve the tracking of budget execution	M	II	January 2002  December 2001	The new software in place in DB allows for better tracking of budget execution, and <i>balances des comptes</i> are produced on a monthly basis, but TOFE are still quarterly. The lag between reference and publication periods needs to be shortened both for <i>balances</i> and TOFEs, and the vote of the laws on final accounts ( <i>Loi de Règlement</i> ) has been pending since 1998 budget.
Establish a public accountant in the DDI (Direction de la Dette et de l'Investissement) to better integrate debt transactions in the treasury balance	M	NS		Discrepancies on debt data between the Senegalese Treasury and the DDI have recently declined, but more needs to be done.
Strengthen auditing by the Public Accounting Office	M	II		Budget review laws for 1997-2001 are still pending.
Increase the resources of the Public Accounting Office	M	II		Recruitment and training of auditors are under way; adequate material equipment (i.e., computers) and appropriate space are needed.

1/ S=Short-term action; M=medium-term action.

2/ FI=fully implemented; II=Implementation initiated; NS=not started.

### Senegal: Financial Sector Indicators and Domestic Public Debt

#### Key Prudential Ratios for Commercial Banks, 2001-02

(In percent, unless otherwise indicated)

Risk	Definition of Prudential Ratio	September 2001 1/		September 2002		November 2002	
		Number of banks violat. 2/	Share of deposits affect. 3/	Number of banks violat. 2/	Share of deposits affect. 3/	Number of banks violat. 2/	Share of deposits affect. 3/
Undercapita-lization	Min. capital = CFAF 1 bill.	0	0%	1	1%	1	1%
Uncovered risk exposure	Min. (capital/ assets) = 8%	1	16%	2	5%	3	23%
Lack of liquidity	Min. (deposits/ liabilities) = 75%	3	22%	2	10%	2	11%
Risk concentration	Max. exposure to largest client = 75% of capital	6	52%	6	53%	3	22%
Maturity mismatch 4/	Min. of long-term liabilities covered by stable resources = 75%	5	48%	5	68%	...	...
Portfolio quality 4/	Min. (loans to certified creditors/total loans) = 60%	10	89%	10	86%	...	...

1/ Before the government-backed injection of capital into groundnut parastatal (SONOCOS) and electricity parastatal (SENELEC).

2/ Ten banks in September 2001, eleven in June and August 2002.

3/ Deposits as of end-December 2001.

4/ Evaluated on a quarterly basis.

Aggregate Indicators of Banking Soundness, 1997-2002  
(In percent)

	1997	1998	1999	2000	2001	2002 Aug.
<b>Capital adequacy</b>						
Total capital/total assets	8.4	8.6	9.5	9.9	9.7	9.2
<b>Assets</b>						
Total loans/total assets	59.0	57.6	55.6	62.8	59.4	59.5
Loan concentration: five largest borrowers (gross)/total capital 1/	42.2	64.2	80.1	177.3	107.7	118.8
<b>Sectoral distribution of credit</b>						
Industrial (incl. SONACOS)	20.2	22.2	29.6	31.3	33.1	31.4
Retail and wholesale trade	41.4	35.9	26.0	28.6	23.6	22.3
Services	12.6	14.3	16.4	14.9	16.3	16.0
<b>Nonperforming loans (NPLs)</b>						
NPLs (gross)/total loans	20.3	18.1	19.6	18.1	17.8	19.2
NPLs net of provisions/total loans	7.0	6.6	5.8	6.7	5.6	6.5
NPLs net of provisions/total capital	42.1	38.6	20.5	51.3	34.3	41.8
<b>Earnings</b>						
Average interest margin	3.9	5.7	6.1	6.1	6.6	...
Pretax return on (average) assets	31.1	24.4	25.6	23.4	26.0	...
<b>Liquidity</b>						
Liquid assets/total assets	34.1	35.7	35.9	28.4	33.9	34.2
Liquid assets/total deposits	39.5	41.8	44.4	34.9	44.9	44.2
Total deposits/total liabilities	86.2	85.5	80.9	81.5	75.5	77.4

1/ At end-August 2002, the five largest borrowers: ICS (CFAF 36 billion), SAR (CFAF 32 billion), Sonatel (CFAF 28 billion), SENELEC (CFAF 18 billion), and Sococim (CFAF 15 billion). At end-December 2001, the five largest borrowers: ICS (CFAF 30 billion), Sococim (CFAF 25 billion), SAR (CFAF 25 billion), SENELEC (CFAF 24 billion), and SONACOS (CFAF 12 billion).

Total Assets of Financial Institutions  
(As of August 2002)

Institutions	In billions of CFA francs	Percent of Total	Percent of 2001 GDP	Percent of 2000 GDP (FSAP) 1/
Banks	1168.7	89.3	34.6	34.5
Nonbank finance institutions	3.1	0.2	0.1	0.4
Insurance companies 2/	114.0	8.7	3.4	3.7
Microfinance institutions 2/	23.2	1.8	0.7	0.4
Total	1259.8	100.0	38.7	39.0

1/ FSAP = Financial Sector Assessment Program.

2/ End-December 1999.

Domestic Public Debt, 2001-03  
(In billions of CFA francs, unless otherwise indicated)

	2001	2002 Est.	2003 Proj.
Domestic public debt	298.1	238.9	235.4
Debt to the banking system	243.3	200.4	202.8
BCEAO	141.5	139.9	133.4
Statutory advances	73.5	73.5	68.8
Kuwait deposit 1/	59.1	59.1	59.1
Government paper	8.9	7.3	5.5
Commercial banks	101.8	60.5	69.4
<i>Of which: government paper</i>	81.4	44.0	56.8
Debt outside the banking system	54.8	38.5	32.6
Deposits at the treasury and in the postal savings system	23.9	20.6	18.7
Government paper	30.9	17.9	13.9
Memorandum items:			
Total government paper	121.2	69.2	76.2
Domestic public debt (in percent of nominal GDP)	8.8	6.7	6.1

Sources: Senegalese authorities; and staff estimates and projections.

1/ Signifies on-lending from the Central Bank to the Treasury of an interest free loan without a specified repayment date.

### Senegal: Performance Relative to Quantitative Indicators in 2002 1/

(In billions of CFA francs; cumulative from the beginning of the year)

	March 31			June 30		
	Targets	Actual	Eval.	Adjusted Targ. 2/	Actual	Eval.
Quantitative performance criteria (under the PRGF arrangement)						
Floor on the basic budgetary balance	15.5	31.0	Met	46.2	70.2	Met
Ceiling on the stock of net bank credit to government 2/	189.4	184.5	Met	149.0	165.3	Not met
Ceiling on the stock of government domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met
Ceiling on the stock of government external payments arrears	0.0	0.0	Met	0.0	0.0	Met
New nonconcessional external debt contracted or guaranteed by the government	0.0	0.0	Met	0.0	0.0	Met
Ceiling on the stock of debt of SONACOS	65.0	54.2	Met	55.0	42.9	Met
Ceiling on the stock of arrears of SENELEC	0.0	24.3	Not met	0.0	22.8	Not met
Ceiling on the stock of guarantee deposits of the government	4.5	4.5	Met	4.5	4.5	Met
Quantitative benchmarks (under the PRGF arrangement)						
Floor on fiscal revenue	160.5	150.7	Not met	343.6	321.6	Not met
Ceiling on the wage bill	49.5	49.5	Met	99.0	99.7	Not met
Floor on the deficit (-) of the postal service in the correspondent accounts of the treasury	-2.0	-2.4	Not met	-2.0	-5.2	Not met
Floor on the deficit (-) of the National Retirement Fund in the special accounts of the treasury	0.0	0.3	Met	0.0	1.6	Met

Sources: Senegalese authorities, and Fund staff estimates.

1/ Indicative targets set for monitoring after expiration of the latest PRGF-arrangement (EBS/02/50; 3/21/02).

2/ End-June target was revised upward by CFAF 4.8 billion (in accordance with the technical memorandum of understanding (EBS/01/151; 8/31/01)); the ceiling was increased by CFAF 20 billion because of the nonreceipt of budgeted external assistance, and the ceiling was reduced by CFAF 15.2 billion because of the nonprogrammed accumulation of deposits in the HIPC account.

**Statement by the IMF Representative**  
**April 28, 2003**

This statement provides additional information that has become available since the issuance of the staff report. This information does not alter the thrust of the staff appraisal.

1. Regarding macroeconomic developments, **economic activity** does not show signs of being affected by uncertainties in the global outlook. Preliminary data through end-February 2003 for port activity, a good gauge of overall economic developments, were up by about 23 percent above the 2002 monthly average, with transit trade to Mali contributing 3 percentage points. Expansion of credit to the economy at end-March 2003 was in line with program projections, at a 12-month rate of 7 percent. On the downside, the completion of **food security surveys** in February 2003 confirmed the risk of possible food shortages in some rural areas as a result of last year's small crop, and prompted the government to submit a request for food aid to the donor community. Recent data also suggest that the economy has easily weathered the temporary shock to petroleum prices in the beginning of the year. Energy and fuel prices were up by about 5 percent through March 2003, from December 2002, with the rise in the euro against the dollar mitigating the impact of higher dollar oil prices. This moderate increase in energy prices was offset by a seasonal decline in food prices, resulting in a one percent decline in the consumer price index at end-March 2003, from December 2002. In the 12 months through March 2003, the consumer price index rose by 0.1 percent.
2. Preliminary **fiscal data** through March 2003 suggest that total tax revenue rose by 6 percent compared with the first quarter of 2002, but that revenue remained nonetheless slightly below the quarterly program target (to the equivalent of 1.2 percent of projected annual revenue). Net banking credit to the government at end-March 2003 was lower than programmed, suggesting that expenditure execution in the first quarter of the year was slower than envisaged.
3. The government has completed the following two sets of **prior actions**:
  - **First, a Letter of Energy Sector Policy** was approved by cabinet on April 8, 2003. The Letter outlines the broad direction of reforms, emphasizing the goal of increased private participation in the energy sector. Specifically, capacity expansion in power generation is to be achieved through private independent power producers (IPPs). The electricity parastatal SENELEC, which would retain exclusivity in transmission and urban distribution, will be privatized through a long-term concession. The privatization of SENELEC is expected to be completed by end-2004.
  - **Second, three pending WAEMU directives on public financial management** were adopted in the form of decrees at end-March 2003. In enacting these three directives into national law, Senegal has completed the implementation of the regional



legislative framework for (i) public accounting, (ii) the chart of public accounts, and (iii) summary fiscal reporting.

4. Furthermore in the area of public finance management, the government is requesting that the Fund prepare a **ROSC on fiscal transparency**, and it has completed the preparatory questionnaire.

5. As regards reforms targeting the private sector environment, the government has issued in early April 2003 a **Letter of Private Sector Development Policy**, prepared in the context of a technical assistance project with the World Bank. The Letter outlines measures to improve the efficiency of administrative and fiscal procedures concerning private investment. It also lays out a work program for both the revision of land titling legislation and sectoral regulatory frameworks in the mining, tourism, leather and craft sectors. These issues will also be discussed with representatives of domestic and international private companies, at the next Investors' Council, scheduled for May 5, 2003.

6. Preliminary indications are that the electricity utility, **SENELEC**, has met its **operational targets** for revenue collection and operating costs in the first quarter of 2003. However, SENELEC was able to clear only about CFAF 11 billion of the programmed CFAF 21 billion in payment arrears to suppliers by end-March, as negotiations with local banks for the partial financing of the arrears clearance were not completed on time.

7. It appears that the implications of last season's poor groundnut harvest for the **groundnut parastatal, SONACOS**, will be more pronounced than initially envisaged, but that, nonetheless, its financial position will remain satisfactory. Purchases of groundnuts will total only about 15,000 tons in the 2002/03 crop season, against program assumptions of 25,000 tons, and compared with more than 250,000 tons in the 2001/02 crop season. Moreover, SONACOS is expected to sell about 30,000 tons from its inventory to the government to enable the distribution of seed to replenish farmers' seed stocks. Overall, processing and exports of groundnut oil should fall to about 40 thousand tons, against program projections of 50 thousand tons. Finally, in parallel to the preparation of structural reforms in the groundnut sector, a Fund-recruited Senegalese consultant is completing the first phase of a Poverty and Social Impact Analysis (PSIA), with the second phase to be carried out by government and World Bank staff over the next few months.



INTERNATIONAL MONETARY FUND

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June 19, 2003

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2002 Article IV Consultation with Senegal**

On April 28, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Senegal.<sup>1</sup>

### **Background**

In the second half of the 1990s, Senegal's economy profited from a stable macroeconomic environment and progress, albeit uneven, in reducing market distortions. Real GDP growth averaged 5.3 per annum, or 2.5 percent on a per capita basis. Low inflation, steadily decelerating to 0.7 percent in 2000, helped maintain gains in external competitiveness achieved by the 1994 devaluation of the CFA franc. Fiscal policy was generally prudent, with the overall government deficit, including grants, averaging 0.2 percent of GDP in 1995-2000. It was complemented by a cautious monetary stance of the Central Bank of West African States (BCEAO). Senegal's external current account deficit, including current official transfers, remained in the range of 4-6 percent of GDP.

In 2001, the government continued with tackling some of the long-standing structural issues. The groundnut marketing company was liquidated, the State withdrew from price-setting in the groundnut market, parametric reforms enhanced the solvability of the civil service pension system, and the management of the post office was strengthened. However, problems with operations of the electricity and groundnut-processing enterprises weakened public finances, and the reform steps in the pension system and the groundnut sector fell short of the -

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

envisaged agenda. Hence, the last arrangement under Senegal's PRGF expired without the conclusion of the final review.

Overall economic developments in 2002 were mixed. Real GDP growth decelerated to 2.4 percent, reflecting a large drop in agricultural output due to unusually poor and ill-timed rainfalls. Nonagricultural GDP growth remained close to 5 percent, however, boosted by strong manufacturing and construction activity. Inflation remained low, and the external current account deficit (including current official grants) narrowed marginally, on account of strong mining exports and subdued import demand. Broad money was boosted by the repatriation of foreign savings in the context of the Euro conversion.

The government stayed the course of prudent financial management. The unification of VAT rates in September 2001 and strong collection efforts in the second half of 2002 yielded a 10 percent increase in tax revenue. Tight control was exercised over expenditure, and the financial performance of key public enterprises that had required large budget transfers in 2001 improved in 2002. As a consequence, overall government operations (including grants) turned into a surplus of 0.4 percent GDP, from a deficit of 2 percent in 2001, and the government reduced its domestic debt.

The implementation of structural reforms gained momentum in the second half of the year. The authorities adopted a new public procurement code and applied directives of the West African Monetary and Economic Union to strengthen expenditure management. The Investment Promotion Agency (APIX) prepared an action plan to simplify administrative procedures for private investment, drawing on a study by the World Bank's Foreign Investment Advisory Services (FIAS). A Presidential Investors Council, instituted in November 2002, has begun to identify impediments to private investment and reform solutions. Two policy reform committees were created to design reform agendas in the electricity and groundnut sectors.

### **Executive Board Assessment**

Executive Directors agreed with the thrust of the staff appraisal. Directors commended the Senegalese authorities for their continued sound macroeconomic management of recent years. As a result, healthy per capita income growth was maintained, inflation remained low, and the external current account strengthened. Going forward, the key challenge facing Senegal is to raise the rate of economic growth to achieve a sustained reduction of poverty. Directors therefore called upon the authorities to implement structural reforms vigorously while maintaining macroeconomic and debt sustainability. Efforts to boost growth and reduce poverty will need to pay particular attention to reducing the rural/urban divide, improving private sector access to bank financing, enhancing productivity, and reducing labor market rigidities.

Directors urged the authorities to continue to build on their prudent fiscal management of recent years. The fiscal balance will shift to a deficit in 2003, reflecting increased expenditure in priority areas identified in the Poverty Reduction Strategy Paper that will be financed in large part from HIPC debt relief and other concessional assistance. Directors welcomed the authorities'

readiness to curtail non-priority spending to protect the fiscal stance. They, nevertheless, urged the authorities to take further measures to boost revenue in 2003 and the medium term, while pursuing the objective of creating a more efficient, transparent, and business-friendly tax system. They felt that this will be helpful to protect expenditure objectives.

Directors welcomed the authorities' decision to base their medium-term financial framework on the prudent scenarios of the PRSP, which reflected cautious assumptions about the government's implementation ability, the economy's absorptive capacity, and aid availability. They supported the authorities' plans to accelerate spending in the social sectors and on basic infrastructure, in line with the priorities outlined in the PRSP. They also called for improved tracking of poverty-related spending.

Directors welcomed the proposals for improvements in the timeliness, scope, and quality of fiscal reporting, and the authorities' commitment to comply with the West African Economic and Monetary Union (WAEMU) expenditure management reform program. They agreed that an increase in civil service employment may be appropriate to alleviate shortages of staff in social services, domestic security, and revenue administration. However, Directors underscored the need to ensure that the increased hiring is based on a careful assessment of staffing requirements, takes into account the long-run impact on the public finances and pension reform, and does not lead to an excessive expansion in public sector employment.

As regards the envisaged large infrastructure projects under public-private partnership, Directors expressed concern about the potential long-term quasi-fiscal and governance risks that could emanate from poorly designed and nonviable projects, as seen in some other countries. Accordingly, they underscored that implementation of these projects should be based on careful cost-benefit analysis, be consistent with fiscal prudence and macroeconomic stability, and draw on fully transparent selection and implementation procedures. In this context, Directors noted the authorities' commitment to provide Fund and World Bank staff, as part of a consultation process, with all the information needed to assess the technical, economic, and financial viability of those projects. At the end of this process, the Fund staff will assess the macroeconomic aspects to ensure consistency with the economic and financial program.

Directors urged the authorities to implement the structural reform agenda with greater determination and urgency in order to stimulate broad-based economic growth, reduce poverty, and strengthen the public finances. They emphasized that decisive action needs to be taken to address the financial and operational problems facing the state-owned electricity and groundnut companies. In this regard, Directors welcomed the development of a medium-term strategy for the energy sector, which includes plans for a carefully-designed privatization of the electricity company (SENELEC) to ensure reliable energy supply at moderate prices and boost productivity. They also called on the authorities to develop and implement reforms in the groundnut sector, including privatization of the groundnut company (SONACOS), which will be crucial for increasing efficiency in this sector and enhancing the prospects of the rural poor, for whom groundnut production is a major source of income. Directors welcomed the authorities' plans to reform the postal service and the pension system to ensure their financial viability, as well as their action plans to strengthen economic governance and remove administrative,

regulatory, judicial, and financial impediments to private investment.

Directors noted that Senegal has largely maintained the gains in competitiveness derived from the devaluation of the CFA franc in 1994. They underscored the importance of developing a more diversified export base to reduce the vulnerability of the economy to adverse developments in export markets. Directors endorsed the authorities' efforts to promote growth through regional integration in the context of WAEMU, and welcomed the steps taken to eliminate tariff distortions, remove non-tariff trade barriers, and develop a common regional investment code.

Directors considered that the regional monetary policy of the BCEAO continues to serve Senegal well, by helping to keep inflation low and supporting the exchange rate peg. They were encouraged by the generally good health of the banking system and the measures being taken to further strengthen the financial system and promote financial deepening. Directors urged the authorities to improve the regulatory framework for the microfinance sector, given its growing influence in the financial system; to strengthen contract enforcement; to improve accounting standards in small- and medium-sized enterprises; and to increase information-sharing on creditors among banks. Directors underscored the need to pursue ongoing efforts within the Economic Community of West African States and WAEMU to strengthen legislation and enforcement in the areas of anti-money laundering and combating the financing of terrorism.

Directors regarded the quality of data as generally adequate for surveillance and program monitoring, but saw room for improvement in the timeliness and accuracy of both fiscal information and poverty and social indicators.

It is expected that the next Article IV consultation with Senegal will be held on the 24-month cycle, in accordance with the provisions of the decision on consultation cycles.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Senegal is also available.

**Senegal: Selected Economic Indicators**

	1998	1999	2000	2001	2002 Prel. Est.
	(Annual percentage change)				
Real economy					
Real GDP Growth	5.7	5.0	5.6	5.6	2.4
Average CPI inflation	1.1	0.8	0.7	3.0	2.2
	(In percent of GDP)				
Public finances					
Total fiscal revenue (excl. grants)	16.8	17.3	18.1	17.8	18.6
Total expenditure	20.1	20.9	20.0	21.7	20.2
Overall balance (incl. grants)	-1.3	-0.4	0.1	-2.0	0.4
Basic balance	2.6	1.7	1.2	-0.8	2.2
	(Annual percentage change)				
Monetary accounts					
Broad money	8.6	13.3	10.7	14.5	8.3
Credit to the private Sector	11.2	10.4	28.6	10.2	4.7
	(In percent of GDP)				
External sector					
Exports of goods and nonfactor services	30.4	30.8	29.9	30.4	30.1
Imports of goods and nonfactor services	37.0	38.0	39.8	39.9	39.4
External current account (incl. transfers)	-4.2	-5.8	-6.3	-4.9	-4.7

Sources: Senegalese authorities; and IMF staff estimates and projections



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International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Approves US\$33 Million PRGF Arrangement for Senegal**

The Executive Board of the International Monetary Fund (IMF) approved on April 28, 2003, a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) amounting to SDR 24.27 million (about US\$33 million) for Senegal, which will support the government's economic reform program for 2003-05. The decision will enable Senegal to draw SDR 3.47 million (about US\$5 million) from the IMF immediately. The last disbursement under Senegal's previous PRGF arrangement was made in April 2002. The Executive Board also agreed to provide Senegal additional interim assistance under the enhanced HIPC Initiative.

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

In commenting on the Executive Board's decision, Eduardo Aninat, Deputy Managing Director and Acting Chairman, made the following statement:

“The Senegalese authorities continued to manage the economy well in 2002. As a result, positive economic growth was maintained—albeit at a lower rate because of adverse weather conditions—inflation remained low, and the external current account strengthened.

“The authorities have embarked on a three-year economic program to maintain macroeconomic and debt sustainability and to address the main barriers to rapid economic growth and sustained poverty reduction. The program is grounded in the development priorities identified in Senegal's poverty reduction strategy paper. These priorities were developed through a participatory process including strong ownership by key stakeholders, and accordingly the program has good prospects for implementation. The authorities have already demonstrated a strong commitment to reform by enacting important legislation in the area of public expenditure management and by issuing a letter of energy sector policy.

“The program incorporates an ambitious macroeconomic and reform agenda. The structural reforms are crucial to accelerate broad-based economic growth, create the conditions for sustained poverty reduction, and reduce domestic and external vulnerabilities. The authorities are committed to pursuing prudent macroeconomic policies while increasing social spending, improving expenditure efficiency and transparency, and strengthening tax administration. Their efforts to improve the timeliness and accuracy of fiscal information, and to strengthen expenditure controls, should contribute strongly to accountability and good governance in the public sector, and reinforce the impact of additional spending on reducing poverty. They are encouraged to vigorously implement the public expenditure management reform.

“Other structural reforms focus on alleviating critical impediments to private sector investment and addressing inefficiencies in the electricity and groundnut sectors. The authorities are to be commended for soliciting private sector feedback in a systematic way to identify major constraints to investment, and for committing to sustain the consultative process, including through the recently-established Investors’ Council.

“The authorities’ economic program will strengthen Senegal’s external position. In particular, the medium-term financial program is fully consistent with debt sustainability, while permitting a significant increase in spending for priority services. Increased vigor and resolve in the implementation of the reform agenda should pave the way for reaching the completion point under the enhanced Heavily Indebted Poor Countries Initiative,” Mr. Aninat said.