December 2010
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Senegal: Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument—Staff Report; Debt Sustainability Analysis; Press Release; Executive Director Statement

In the context of the Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument with Senegal, the following documents have been released and are included in this package:

- The Staff Report for the Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on October 11, 2010 with officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 12, 2010. 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 joint IMF/IDA Debt Sustainability Analysis
- A Press Release on the completion of the reviews
- A statement by the Executive Director for Senegal

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

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

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

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SENEGAL

Senegal—Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument

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

Approved by Roger Nord and Thomas Dorsey

November 12, 2010

Program discussions were held in Dakar September 15–29, 2010 and continued in Washington October 7–11, 2010. The team comprised Mr. Funke (head), Mr. Lakwijk, Mr. Gitton (all AFR), Ms. Shabunina (FAD), Mr. Painchaud (SPR), Ms. Fichera (resident representative), and Mr. Ba (resident representative office). The team met with Prime Minister Ndiaye, Finance Minister Diop, Budget Minister Diop, Energy Minister Sarr, International Cooperation and Infrastructure Minister Wade, BCEAO National Director Diop, other senior government officials, and representatives of development partners and the private sector.

Seminars and outreach: In a half-day seminar, the authorities presented the findings of their study on fiscal policy, and the team made presentations comparing Senegal to its international competitors and on reforms needed to accelerate growth. The mission met with representatives of parliament and trade unions.

Fund relations: The three-year Policy Support Instrument (PSI) was initially scheduled to expire on November 1, 2010 but was extended to December 22, 2010; five reviews have been completed. An 18-month Exogenous Shocks Facility (ESF) arrangement was fully disbursed (a total of SDR 121.35 million, about US$178.8 million) and expired in June 2010. The last Article IV consultation was concluded in May 2010.

Sixth and final PSI review: Staff recommends its completion. All quantitative assessment criteria have been met, and structural conditionality has been largely observed.

Successor PSI: In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the authorities request approval of a successor three-year PSI to help accelerate growth, reduce vulnerabilities, and lower poverty.

Contents Page

List of Acronyms

AFD	French development agency
AIBD	Airport project company
ARMP	Procurement regulatory authority
ASTER	expenditure accounting system
BCEAO	Central Bank of West African States
CIRR	commercial interest reference rate
CPIA	Country Policy and Institutional Assessment
CFAF	CFA Francs
DCMP	Central public procurement directorate
DSA	debt sustainability analysis
DGID	Taxes, land and property general directorate
ECF	Extended Credit Facility
ESF	Exogenous Shocks Facility
FDI	foreign direct investment
FSIPP	specific surcharge on petroleum products
FSAP	Financial Sector Assessment Program
GDP	gross domestic product
ICS	Phosphoric acid production company
IGF	Office of the Inspector General of Finance
MCA	Millennium Challenge Account
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
NFA	net foreign assets
NIR	net international reserves
NPV	net present value
NPL	non-performing loan
PC	performance criterion
PEFA	public expenditure and fiscal accountability
PFM	public financial management
PPP	public private partnership
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
REER	real effective exchange rate
SAR	Oil refinery company
SDR	Special Drawing Rights
SENELEC	Government-owned electricity company
SIGFIP	integrated public financial management system
SSA	Sub-Saharan Africa
TMU	Technical Memorandum of Understanding
TOFE	state financial operations table
VAT	value-added tax
WAEMU	West African Economic and Monetary Union

Executive Summary

The economy has started to recover from a slowdown associated with the global financial crisis. Performance under the program was broadly satisfactory. Senegal has made significant progress under a three-year Policy Support Instrument (PSI), but important challenges remain. Growth has been lower than in the best-performing countries in Sub-Saharan Africa, vulnerabilities to shocks and poverty remain high, and infrastructure bottlenecks persist. To accompany the authorities' reforms to address these challenges, the authorities have requested a successor three-year PSI.

Signs of a recovery: Recent indicators of activity and government revenues suggest that growth is picking up. Real GDP growth is expected to accelerate to 4 percent in 2010 after averaging 2.7 percent in 2008 and 2009. Consumer price inflation is expected to return gradually to its long-run trend of about 2 percent.

Broadly satisfactory program performance: All quantitative assessment criteria were met. Structural reforms have progressed well, although with some delays in two areas. In a major step, the authorities have widely communicated the modalities of settling past extrabudgetary expenditure and started paying in October, compared to an end-September benchmark. The integration of the wage bill into the expenditure-tracking system (SIGFIP) needs to be finalized. All other benchmarks were met on time.

Increasing growth and improving resilience to shocks are a policy priority for a successor PSI: The successor PSI will focus on increasing growth and reducing vulnerabilities and poverty through (i) maintaining macroeconomic stability, supported by a sound fiscal policy and stronger debt management; (ii) increasing government revenues to foster higher public investment in infrastructure, coupled with better investment planning and a higher quality of spending; (iii) consolidating progress in public financial management (PFM) by improving budget credibility and implementation and avoiding accumulation of new payment delays; and (iv) pursuing broad-based structural reforms leading to an improved business climate, better governance, and more effective energy and financial sectors.

Risks: Risks to growth and the program relate to lower global growth, financing constraints that limit fiscal space, renewed problems with electricity supply, lack of progress in improving public financial management and the quality of spending, and an ambitious infrastructure program that may not yield expected economic benefits, if complementary policies, such as improvements in the business climate and governance fail to materialize. Additional risks could include mounting spending pressures with the approach of the 2012 presidential elections and related backtracking on past reform accomplishments.

I. Paving the Way for New Economic Gains

1. **Macroeconomic and social outcomes have improved since the mid-1990s, but growth has remained volatile, most recently related to the food and fuel price shocks and the global financial crisis** (Figure 1). Real per capita income has grown by 24 percent during the past 15 years, compared to a decline during 1980–1995. Inflation has been low, apart from short periods of shock-related spikes, reflecting the peg to the euro. Debt relief and increasing tax revenues have created the fiscal space for higher public spending, including capital investment and other priority areas. Several social outcomes have improved, including access to health and education services, but poverty remains high.

2. **Following the crisis-related growth slowdown, economic activity is picking up** (Figure 2, Tables 1–5).

- *Growth:* Monthly indicators point to an ongoing economic recovery, which appears to be strengthening: projected growth increased from 3.4 percent to 4 percent in 2010 and from 4.1 percent to 4.4 percent in 2011. Official growth estimates for 2008 and 2009 were raised by about ½ percent.

- *Inflation:* Year-on-year inflation turned positive in June 2010 for the first time in more than a year, and has picked up mainly because of higher food prices.

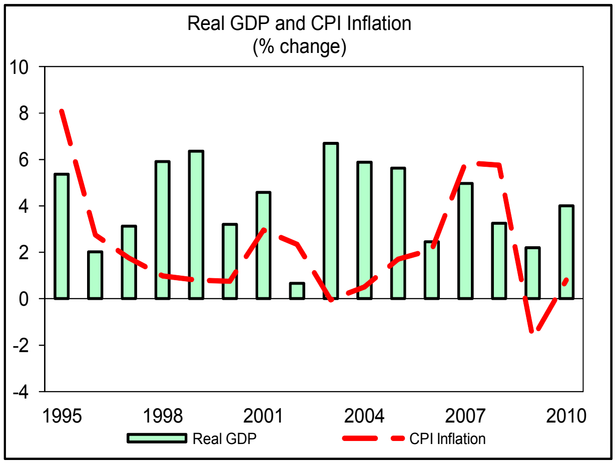
- *Fiscal balance:* The overall fiscal deficit is expected to reach 4.8 percent of GDP in 2010, broadly in line with the budget target.

- *Balance of payments:* The current account deficit is projected to change little in 2010 at about 8 percent of GDP. The impact of the global financial crisis on workers' remittances and foreign direct investment (FDI) has been smaller than originally expected.

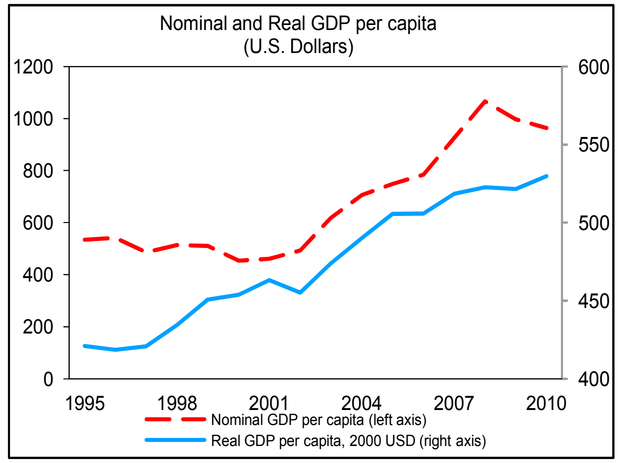
3. **Uncertainties about the short-term outlook persist.** Downside risks include partner country fragility, higher oil prices, continued electricity supply problems, and opportunistic pre-election changes in economic policies. On the upside, higher global growth and continued structural reforms could stimulate growth.

Figure 1. Senegal: Historical Perspective, 1995–2010

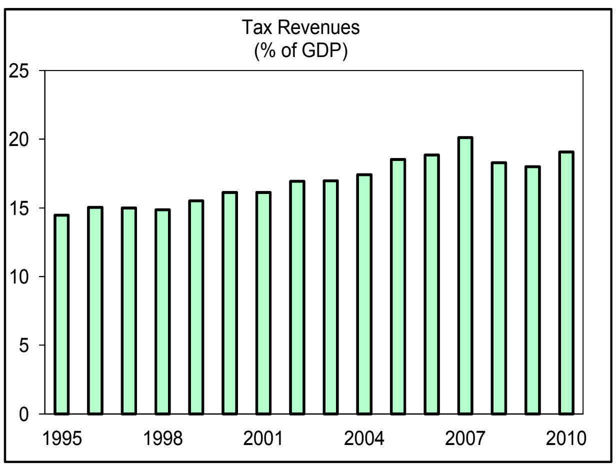
Although growth has been volatile and was affected by the crisis, ...



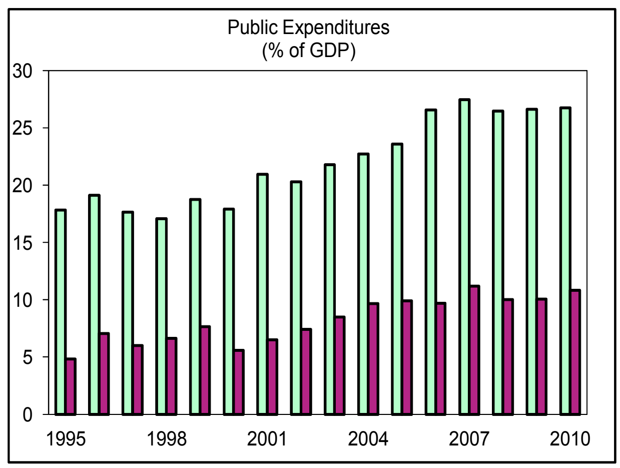
...per capita income has risen steadily.



Revenues have improved in recent years ...



... allowing for higher spending, including capital spending.



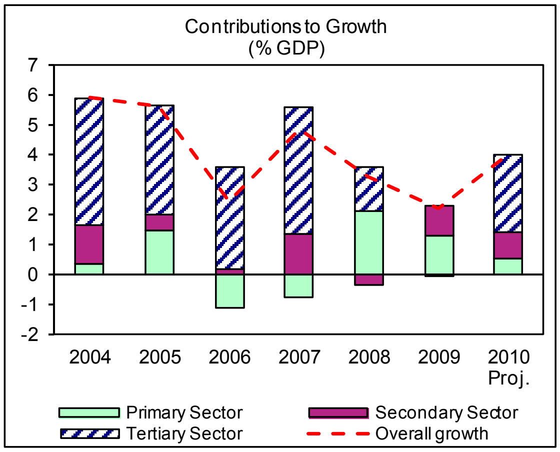
Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2008
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	66	54	44	34	..
Literacy rate, youth female (% of females ages 15–24)	28	..	41	45	45
Total enrollment, primary (% net)	45	50	58	72	75
Ratio of female to male primary enrollment (%)	72	76	86	96	102
Mortality rate, infant (per 1,000 live births)	73	68	61	55	52
Mortality rate, under-5 (per 1,000)	151	138	120	104	95
Births attended by skilled health staff (% of total)	..	47	60	52	..
Prevalence of HIV, total (% of population ages 15–49)	0.1	0.2	0.4	0.8	1
Improved water source (% of population with access)	61	63	65	68	69

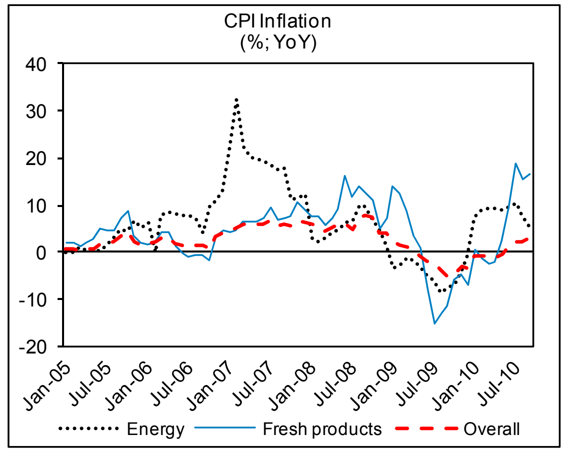
Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

Figure 2. Senegal: Recent Macroeconomic Developments, 2004–2010

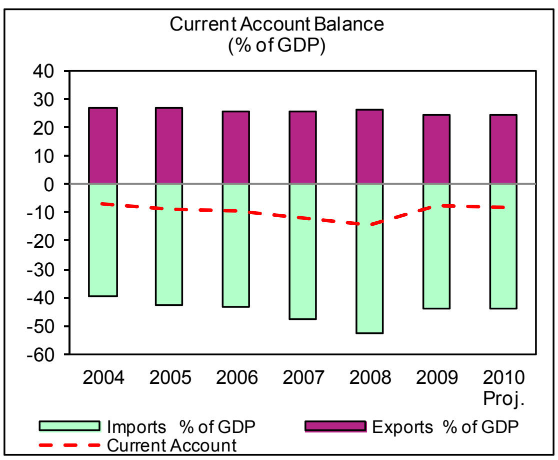
Economic growth has started to recover.



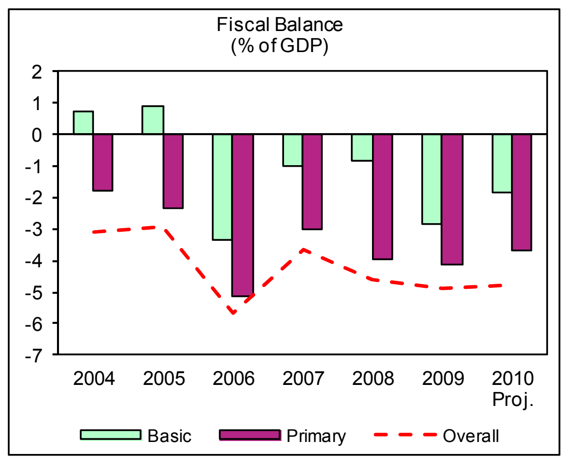
Inflation is returning towards its long-term trend.



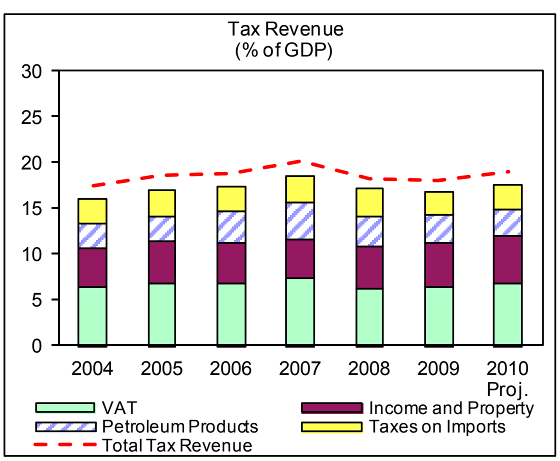
The current account deficit is stabilizing.



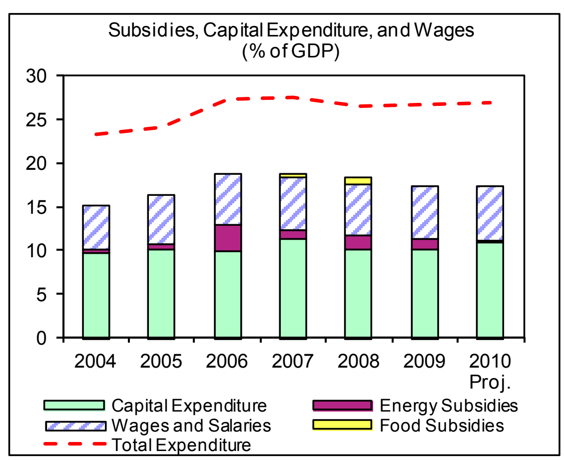
Fiscal policy has been eased to cushion the impact of the global crisis.



Tax collections are recovering...



...supporting more investment spending.



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

II. Program Performance

4. **Performance under the program was broadly satisfactory**. At end-June the budgetary float was below the program ceiling and the deficit target was met because revenues exceeded their programmed level and overall expenditures were contained (Table 7). On the structural side, reforms are progressing well. Only the integration of payroll into the expenditure-tracking system SIGFIP is not finalized, and it took somewhat longer than expected to regularize and start paying past extrabudgetary expenditures.

MEFP ¶3

Text Table 1. Structural Benchmarks, May 2010–October 2010

Measures	Target Date	Status
Submit a supplementary budget for 2010 to parliament that authorizes the Ministry of Finance to settle in 2010 the extrabudgetary arrears of ministries and public institutions and agencies. Publish a press release explaining the settlement terms and conditions.	May 15, 2010	Met
Improve SIGFIP by including payroll expenditure and implementing the SIGFIP-ASTER interface.	July 31, 2010	Partially met[1]
Conduct a census of all accounts of general government and public institutions, including the account number, name of the holder, and the balances as of December 31, 2008 and 2009, for each account, with a view to adopt a strategy for establishing a single treasury account.	July 31, 2010	Met
Complete payment of at least 50 percent of extrabudgetary arrears and public institution and agency debt identified in the July 2009 audit.	September 30, 2010	Delayed, payments started in October
Publish a press release reporting the results of the internal audit, summarizing progress made to clear the extrabudgetary commitments and public institution and agency debt and detailing the steps taken to complete this process.	September 30, 2010	Met with delay in October
Compile the general tax code and all legislation governing domestic taxation in a single document.	October 15, 2010	Met

[1] The SIGFIP-ASTER interface has been implemented.

III. Anchoring a New PSI—Regaining Growth Momentum

A. Achievements of the First PSI

5. **Program implementation suffered early setbacks, but substantial progress was made subsequently** (Box 1). Government payment delays in 2008 led to a shift in the PSI's focus to public financial management (PFM) issues. The authorities corrected much of the fiscal slippages and improved, and applied more rigorously, their budget framework. They also put in place a broadly appropriate policy response to the global financial crisis. As revenues came under pressure, temporary fiscal easing has helped to cushion the impact of the global financial crisis, supported by access to the Exogenous Shocks Facility (ESF). The authorities have also made progress in moving forward with the structural reform agenda in other areas, such as financial markets. But progress has been mixed on some structural reforms outside the Fund's core area of expertise and not covered by benchmarks, including the energy sector and the business climate.

6. **The authorities noted that the PSI, including the fixed review schedule, has served the country well**. They welcomed the self-discipline imposed by a Fund-supported program, the positive signal provided by a review completion, and the building of capacity, in particular in public financial management, in the context of the program. They appreciated the Fund's flexibility in responding to the triple shocks (oil prices, food prices, financial crisis) and urged continued flexibility to allow infrastructure gaps to be filled. The authorities viewed a successor PSI as the most appropriate way forward with per capita GDP approaching the threshold for lower-middle income countries and plans to borrow nonconcessionally to help fill the infrastructure gap. A close engagement with the Fund would also provide safeguards against spending pressures.

B. Anchoring a New Program: Higher Trend Growth and More Resilience to Shocks

7. **Higher growth will be vital if Senegal is to further reduce poverty and continue to make progress toward the MDGs**. During the past 15 years, real per capita GDP growth in Senegal was over 2 percent lower than in the best-performing, non-oil exporting countries in Sub-Saharan Africa (SSA) (Figure 3).[1] While the reasons for the growth divergence are complex, Senegal lags these countries in a number of areas that the growth literature has identified as critical. They include infrastructure, non-price competitiveness, and strength of fiscal institutions, as well as factors such as governance, the quality of institutions, and financial market development.

[1] The comparator group includes the eight fastest growing, non-oil exporting countries in Sub-Saharan Africa, which all had average per capita growth above 3 percent during 1995–2009. The list comprises: Botswana, Cape Verde, Ethiopia, Mauritius, Mozambique, Rwanda, Tanzania, and Uganda.

Box 1. The PSI-supported Program: A Story of Two Halves

In the first half, the PSI helped uncover domestic arrears by the government to the private sector and extrabudgetary spending (that is, spending without proper authorization) totaling 5 percent of GDP. This resulted from lack of adjustment to the subsidization of oil and food prices amounting to 7 percent of GDP in 2006–08. In the second half, the subsidies were largely eliminated, arrears cleared, and extrabudgetary spending regularized and paid.

More quantitative criteria met in second half

- Eight of the 18 quantitative assessment criteria and indicative targets were missed during the first half of the PSI (for the first three test dates).
- With strong commitment to address the fiscal slippages, just 2 of the 18 quantitative assessment criteria were missed during the second half of the program.

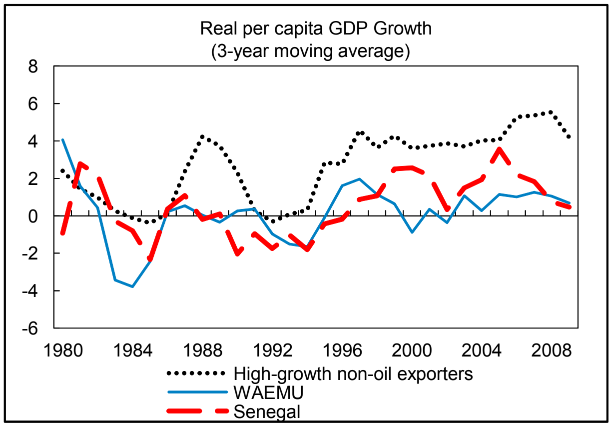
Implementation of structural reform benchmarks generally good throughout

- PSI reforms at first focused on public procurement, electricity tariffs, and the management of and fiscal risks related to large infrastructure projects (for example, the new airport and economic zone).
- Following the emergence of the fiscal slippages, settling payment delays and PFM became the focus to help address the root causes of the slippages and restore the integrity of the budget system. PFM measures built on budgetary and financial reform plans agreed among the government and development partners and several IMF TA missions. At the same time, tax system reforms gained importance, driven by the authorities.
- Of the 46 structural measures included under the program, none have *not* been implemented, and 9 were partly, or later, implemented. Implementation was marginally weaker during the second half, partly reflecting the need to resolve particularly difficult issues (for example, the resolution of extrabudgetary spending). The bulk of PFM measures, including improvements in budget planning and closure of the budget year, as well as measures in the area of taxation, were fully met.

	PSI Start	First Review	Second Review	Third Review	Fourth Review	Fifth Review	Sixth Review	Total
Assessment criteria and indicative targets	--	6	6	6	6	6	6	36
Met	--	2	4	5	6	4	6	27
Not met	--	4	2	2	--	2	--	10
Prior actions, structural assessment criteria, and structural benchmarks	3	10	9	8	6	4	6	46
Completed	3	9	9	6	3	3	4	37
Partly or later completed	--	1	--	2	3	1	2	9
Not completed	--	--	--	--	--	--	--	--

Figure 3. Senegal: Comparing Senegal to High-Growth Non-Oil Exporters.[1]

High growth could be supported by ...



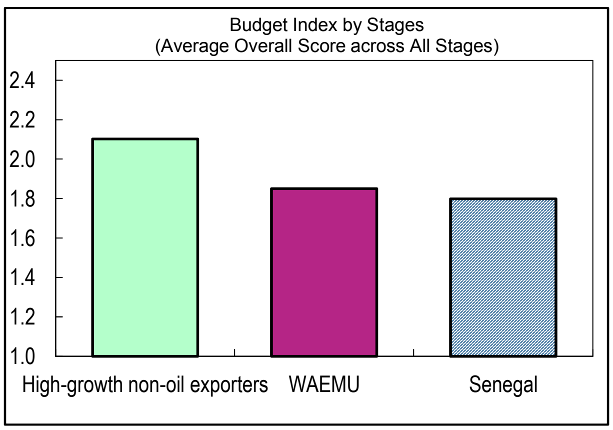
... better infrastructure, ...

Benchmarking WAEMU Infrastructure with Other Regions

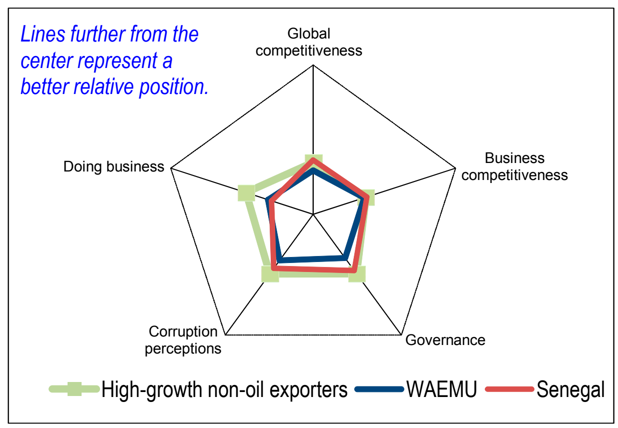
	High-growth non-oil exporters[1]	WAEMU	Senegal
Paved road density (km/1000 km^2)	176 [2]	14	22
Mobile density (per 1000 people)	138	50	90
Internet density (% of households with access)	4	2	5
Generation capacity ((MW/1 Mil. people)	99	20	23
Electricity coverage (% Households)	25	17	30
Improved water (% Households)	71	60	72
Improved sanitation (% Households)	45	33	52

Source: AICD.
[1] Excluding Mozambique.
[2] When excluding Cape Verde and Mauritius, equals to 13 km/1000 km^2

... continued progress in public financial management ...



... improving non-price competitiveness ...



... and other factors.

Other Structural Indicators, 1995–2009

	1996–2008		1995–2009		
	Corruption	**Rule of Law**	**Life Expectancy**	**Primary Completion Rate**	**Domestic Credit to the Private Sector**
	(Index [1])		*(Years)*	*(Percent of relevant age group)*	*(Percent of GDP)*
Sub-Saharan Africa	**1.9**	**1.8**	**53.1**	**57.3**	**20.8**
High-growth non-oil exporters	2.4	2.4	54.1	64.2	22.5
WAEMU	1.9	1.7	52.5	41.3	13.0
Of which: Senegal	2.2	2.2	52.5	39.6	15.4

Source: World Bank, IMF, African Department database, and IMF sttaff estimates.
[1] Variables vary from 0 to 5, with higher numbers indicating better quality of institutions.

Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.
[1] High-growth non-oil exporters comprise Botswana, Cape Verde, Ethiopia, Mauritius, Mozambique, Rwanda, Tanzania, and Uganda.

8. **Staff and authorities agreed that several complementary policies need to be put in place to achieve higher and less volatile growth**. Key steps in line with Senegal's Poverty Reduction Strategy (Box 2) include (i) maintaining macroeconomic stability, supported by a sound fiscal policy and improvements in debt management; (ii) increasing government revenues to create more room in the budget for priority spending, including higher public investment in infrastructure, coupled with better investment planning and higher expenditure quality; (iii) consolidating progress in PFM by improving budget credibility and implementation and avoiding accumulation of new payment delays; and (iv) pursuing broad-based structural reforms leading to an improved business climate, better governance, and more effective energy and financial sectors.

9. **The baseline scenario incorporates a gradual acceleration of per capita growth—approaching the rate achieved by the weakest performer among the group of high-growth, non-oil exporting SSA countries** (Figure 4). The authorities and staff concurred that reforms could result in even higher trend growth if the synergies of complementary reforms materialize. Uncertainties relate to the ex post rate of return on public investment, the speed and magnitude of the private sector response to structural reforms, as well as any discretionary policy adjustments in response to political pressures.

Box 2: Senegal's Poverty Reduction and Growth Strategy

The last progress report for the PRSP II (2006-10) acknowledges mixed results:

- **Poverty has not changed due to the severe external and domestic economic shock**s experienced in 2007-2009.
- **Access to basic social services has generally improved.** The primary education enrollment rate for both boys and girls has achieved the MDG target level, maternal and children's health has improved (though with recent slippages that put MDG achievement at risk), and potable water access and sanitation has improved in particular in urban areas.

With the ambition of becoming an emerging economy and achieving the MDGs by 2015, the authorities are preparing an integrated medium-term economic and social development strategy in consultation with the main stakeholders that focuses on:

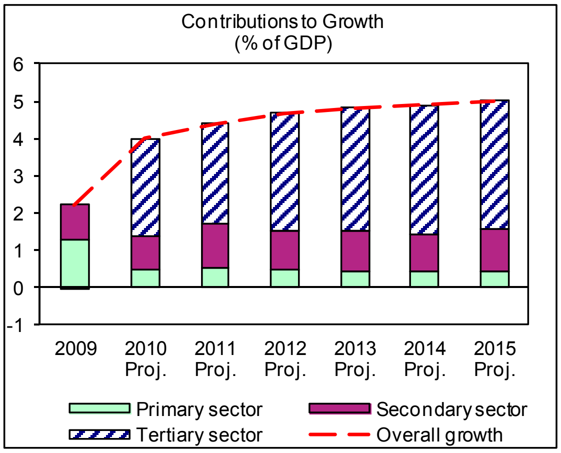
- **Further modernization of the agriculture sector** and stronger rural development;
- **Development of infrastructure** (roads, ports, airports) to support growth and effective energy management;
- **Improvements in social services** in housing, education, training, and health.

The strategy also aims to promote employment, good governance, gender equality, and effective management of economic and natural risks. The government remains committed to strengthening PFM and moving towards an outcome-based management of public resources.

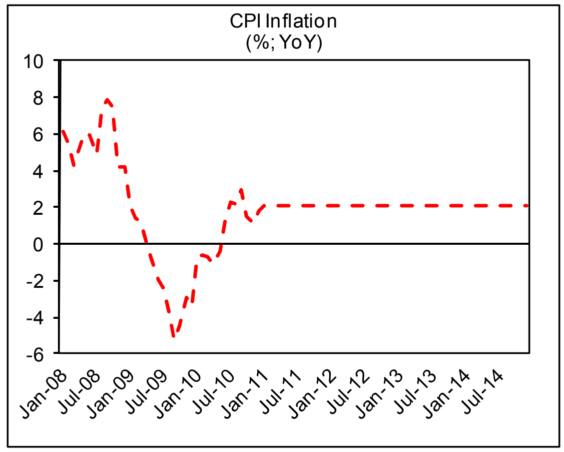
The new strategy is expected to be approved in early 2011.

Figure 4. Senegal: Medium-Term Outlook, 2009–15

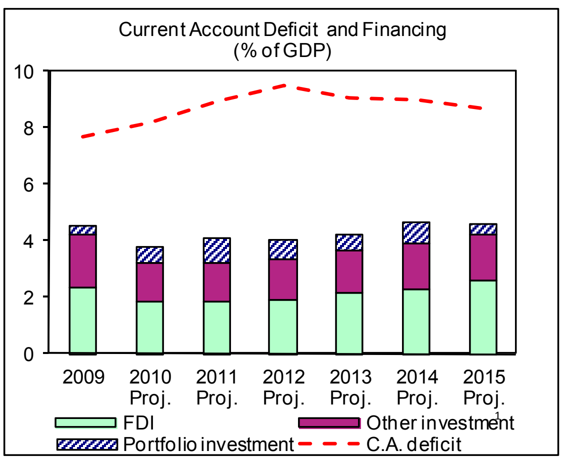
Output growth is projected to be driven by the services sector, recovery in ICS' production, and construction related to large investment projects.



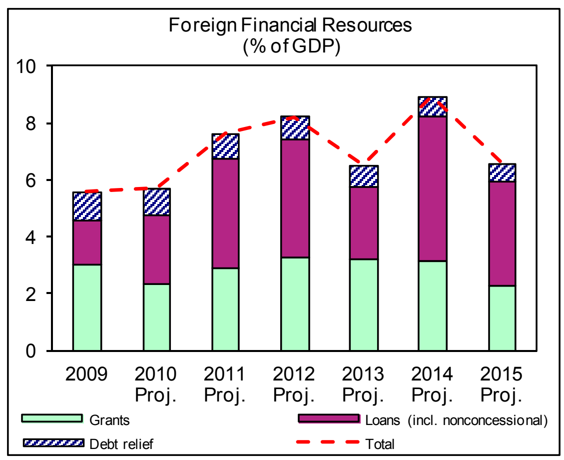
Inflation is projected to return to historical trends in the context of WAEMU membership and in the absence of renewed energy and food price pressures.



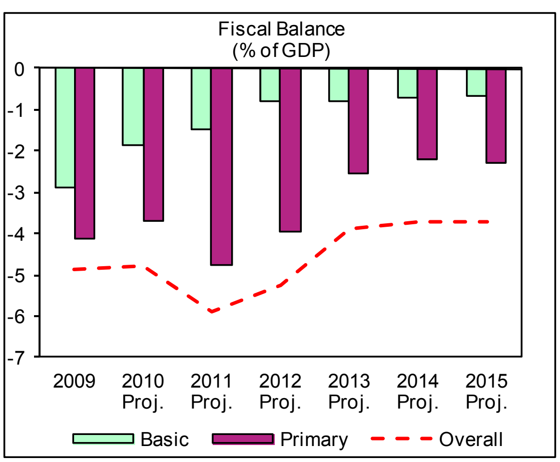
The current account deficit is projected to be financed in part by private flows ...



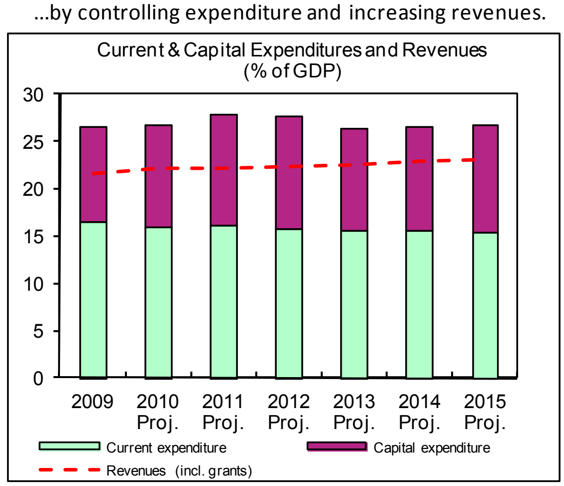
...while the economy will remain dependent on foreign financial resources.



The fiscal balance will be contained...



...by controlling expenditure and increasing revenues.



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

[1] Includes only private other investment.

Maintaining macroeconomic stability

MEFP ¶8–11

10. **To support macroeconomic stability and growth, fiscal policy needs to balance priority needs, including infrastructure, and aggregate demand and debt sustainability considerations**. The Senegalese authorities view more and better public investment as essential to supporting economic development, reducing poverty, and decreasing Senegal's vulnerabilities to shocks (Box 3). In the short term, they give highest priority to extending a toll road to the airport and two regional centers. While the authorities continue to favor concessional and regional market financing, these funding sources are limited. For the highway extension to and past the new airport, the authorities project a nonconcessional external financing need of $500 million. Staff urged the authorities to carefully compare various financing options, taking into account carry costs, implementation constraints, and exchange rate and roll-over risks.

11. **After several years of growth below potential and high unemployment, the short-term risk of overheating is small, and an updated Bank-Fund debt sustainability analysis (DSA) shows scope for growth-enhancing spending, financed on nonconcessional terms.** Debt indicators increase modestly, but the risk of debt distress remains low, when nonconcessional financing averages 1–1½ percent of GDP per year during 2011–13 ($500 million in total over 2011–13), and fiscal deficits accommodate these amounts. The authorities concurred that the deficit would need to decline to below 4 percent of GDP in the medium term.

12. **The authorities will submit to parliament a second supplementary budget for 2010 and have submitted the 2011 budget broadly in line with the macroeconomic framework discussed with staff** (prior actions for new PSI). The supplementary budget reallocates spending within the original budget ceiling to significantly underbudgeted wages for contractuals in the education sector, scholarships, and utility costs. Higher tax revenues, expenditure cuts in nonpriority areas, and budgetary reserves established earlier this year absorb these payments. Regarding the 2011 budget, the authorities and staff agreed on the need for expenditure restraint in nonpriority areas. With a pickup in growth, a fiscal deficit of 4.4 percent of GDP in 2011 excluding the highway extension, or 5.8 percent of GDP including the highway extension, appears appropriate.

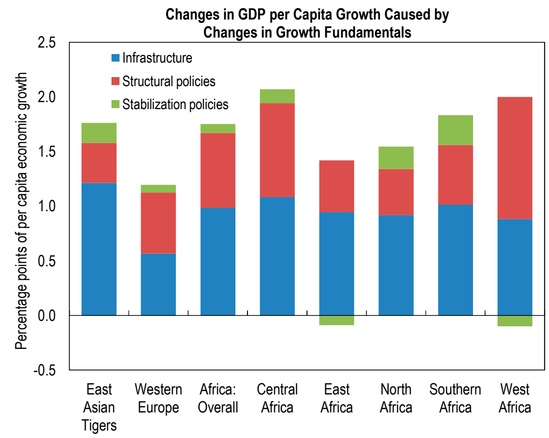
Government Budget, 2009–13

	2009	2010			2011	2012	2013
	Est.	Initial budget	May Proj.	Proj.		Proj.	
					(Percent of GDP)		
Total revenue and grants	21.6	21.9	21.8	22.1	22.2	22.4	22.6
Of which : Tax revenue	18.0	18.9	18.4	19.1	19.2	19.5	19.7
Total expenditure and net lending	26.7	26.9	26.3	26.9	28.0	27.7	26.5
Current expenditure	16.6	15.6	15.6	15.9	16.0	15.8	15.5
Capital expenditure	10.1	11.2	10.7	10.8	11.8	11.9	11.0
Overall fiscal balance[1]	-4.9	-4.9	-4.5	-4.8	-5.8	-5.3	-3.9
Overall fiscal balance[1] excluding autoroute extension	-4.9	-4.9	-4.5	-4.8	-4.4	-3.7	-3.7

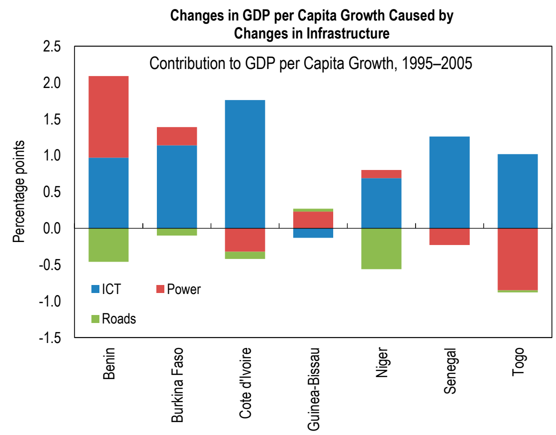
[1] Includes selected public sector entities balance.

Box 3: Infrastructure Investments in Senegal: A Broader Perspective

A considerable volume of research suggests that inadequate infrastructure hinders faster growth in Africa.[1] Infrastructure improvements between 1995 and 2005 boosted per capita growth rates by 0.8 percentage point in WAEMU countries, somewhat less than the 1 percent across Africa.[2] Raising Africa's infrastructure to international benchmarks leads to an estimated 1–2 percentage points higher per capita growth.



Source: World Bank, AICD.



With the support of donors, the Senegalese authorities are giving priority to extending and modernizing transport infrastructure to facilitate access to markets. Several large projects are progressing, including a new airport and highway. To fully reap the benefits of these projects and create additional synergies, the authorities plan to extend the highway to the airport and two regional centers, with reputable estimates pointing to an economic profitability of 14 to 24 percent.

Given the scarcity of concessional financing, the authorities are considering other financing options, including extending an existing concession, issuing debt on the regional market, and issuing a second international bond of $500 million. Staff emphasized the importance of aligning financing with spending needs to reduce carry costs. The authorities emphasized their commitment to transparency, including tying the nonconcessional borrowing to this project and installing monitoring mechanisms.

Other ongoing or new projects in various stages of development include modernization of the port, establishment of a special economic zone, conversion of the current airport into a business complex, water distribution and housing projects, and energy infrastructure expansion.

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[1] For example, Commission for Africa, 2005, "Our Common Interest," Blair Commission for Africa (London), and Foster, Vivien, and Cecilia Briceño-Garmendia, 2009, "Africa's Infrastructure: A Time for Transformation," Africa Infrastructure Country Diagnostic (AICD) (Washington: World Bank).

[2] Calderón, César, 2009, "Infrastructure and Growth in Africa," Policy Research Working Paper 4914 (Washington: World Bank).

13. **In light of recent progress in PFM and to build up experience with untied external borrowing, the program foresees nonconcessional borrowing of up to ½ percent of GDP without ties to specific projects and without increasing the fiscal deficit.** This financing would have a concessionality element of at least 15 percent as a safeguard and could, for example, be used for an economically profitable investment project in case of an unforeseen shortfall in concessional or domestic financing. The authorities are committed to ex ante sharing of information with staff on nonconcessional borrowing and ex post reporting on the use of funds in future MEFPs.

MEFP ¶12

14. **Given increased borrowing at expensive market rates, the authorities are committed to improving debt management.** They already prepare their own debt sustainability analysis semiannually and are changing their institutional set-up and enhancing capacity through

MEFP ¶13

- improving tracking of financing needs and centralization of debt data;
- creating the administrative and legal preconditions for setting up a single debt unit that manages both domestic and external debt (benchmark April 15, 2011);
- establishing debt management manuals;
- making the new debt unit fully operational (benchmark January 2012); and
- developing a more detailed medium-term debt management strategy.

15. **The authorities and staff agreed that better treasury management would also be needed, in conjunction with improved debt management, to support domestic market access.** Key steps are

MEFP ¶14

- setting up an expenditure execution committee with biweekly and monthly updates of treasury needs (benchmark January 2011); and
- moving toward a single treasury account, by building on the recent census of government accounts and producing a strategy and timetable for this (benchmark September 2011).

Increasing government revenues and improving the quality of spending

16. **While already high regionally, the authorities intend to increase tax revenues further to above 20 percent of GDP.** Some groundwork has been done for comprehensive tax reforms through an analysis of tax expenditures, and the IMF is providing tax policy technical assistance. Broadening the tax base, rationalizing tax expenditure, and further strengthening tax and customs administrations would increase the fiscal space for priority spending. Staff urged the authorities not to reduce the VAT on tourism. The reduction would be a step in the wrong direction since it would introduce a lower rate for one sector, create a new tax expenditure, and possibly result in pressure to reduce rates for

MEFP ¶15–18

other sectors as well. The authorities explained that the measure would be consistent with the WAEMU directive that allows a small number of VAT exemptions and that it was a long-standing government commitment, implementation of which had been delayed because of the financial crisis. Overall, staff sees scope for revenue enhancements well exceeding relatively cautious baseline projections of 1 percent of GDP during the next 5 years. Key steps include

- submitting a comprehensive tax reform plan to the Council of Ministers by end-March 2011 (structural benchmark);
- reducing or eliminating tax expenditures (which total over 3 percent of GDP) to the extent possible, based on analyses of their impact and motivation;
- rationalizing tax administration and setting up two medium-tax payer offices; and
- modernizing customs administration, through upgrading computer systems and software, extending customs databases, and improving risk management.

MEFP ¶20

17. **The authorities' emphasis on public investment will be supported by improving the quality of spending and restraining nonpriority expenditure**. To contain the deficit, the authorities expressed their commitment to reducing current expenditure by about 1 percent of GDP over three years compared to 2009 and to reinforcing efforts to improve the quality of spending. Key measures include

- improving transparency for spending on utilities by more realistic budgeting—initiated in the 2011 budget—and establishing an action plan for proper payment procedures (structural benchmark end-February 2011), as a first step to better manage, control, and contain spending in this area;
- verifying the wage bill for contractuals in education and better prioritizing other current expenditures;
- reviewing the efficiency of spending, including in the education sector, with the help of the World Bank;
- improving the monitoring of spending on poverty reduction (new indicative assessment criterion); and
- advancing well-targeted programs (including conditional cash transfers) instead of general price subsidies.

MEFP ¶21

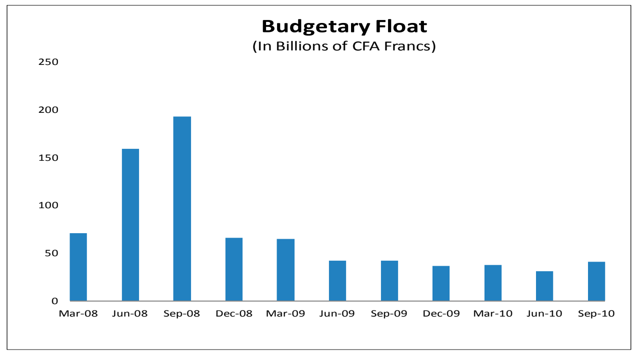
18. **The authorities are committed to improving the planning, evaluation, and selection of capital projects.** They will establish evaluation units in additional spending ministries to analyze new projects above a certain size with regard to their economic and social returns. They will prepare evaluation guidelines (benchmark end-July 2011), and the selection of projects by the government will rely more on technical evaluations. Staff emphasized that investment projects should be selected and prioritized based

on rigorous economic cost-benefit analyses. Careful assessments, including analysis of maintenance costs, would allow the selection of the highest-return projects and increase the productivity of government spending.

Consolidating progress in PFM

MEFP ¶19

19. **The authorities are committed to consolidating PFM progress**. They have made significant progress in normalizing financial relations with the private sector. Reforms will be based on the *Budgetary and Financial Reforms Plan* (September 2009)—agreed on between the government and development partners and based in part on the 2007 Public Expenditure and Fiscal Accountability (PEFA) report—and more recent IMF technical assistance (March 2010). Key milestones include



- continuing the recently established practice of adjusting each annual budget through one or two supplementary budgets to maintain budget realism;
- providing in the budget a contingency reserve of 5 percent of appropriations for current spending (excluding wages) and domestically financed capital expenditure, to enhance flexibility in budget execution;
- improving budgeting for wages and contractual salaries in the education sector to prevent unexpected overruns and help contain spending in this area;
- monitoring closely and managing unpaid bills within the expenditure chain (budgetary float) to improve cash flow supervision and prevent budgetary slippages and keeping the stock of unpaid bills within the regular expenditure chain at normal levels (assessment criterion on the budgetary float);
- finishing payment of extrabudgetary expenditure and issuing a final press statement (benchmark end-June 2011);[2]
- implementing the new WAEMU directives in PFM;
- strengthening financial relations between the treasury and public institutions/agencies; and
- expanding the fiscal risk annex to the initial budget law to better describe fiscal risks.

[2] See Box 1 of the last Staff Report (Country Report No. 10/13).

Promoting private sector development

20. **Further reforms to support private sector development, including in the financial and energy sectors, the business climate, and governance are essential for increasing growth and central to the authorities' efforts**. Staff and the authorities agreed that reforms in these areas will need to advance in parallel.

MEFP ¶27

21. **In the financial sector, the authorities' intend to safeguard soundness and improve the sector's contribution to investment and long-run growth** (Figure 5). Reforms will be guided by the consolidated financial sector action plan and the second national forum on credit held in March 2010. As in other countries in the WAEMU region, bank loan quality has deteriorated somewhat because of lower growth. The authorities will closely supervise bank compliance with prudential requirements and higher minimum capital standards taking effect at end-2010 and propose targeted measures for institutions that have difficulties complying. To improve the contribution of the financial sector to growth, priorities include the promotion of noncash means of payment, the establishment of a legal framework for credit information bureaus, and adequate regulation for leasing (benchmark end-June 2011). The government is considering transforming a development fund into a bank, with the government as majority owner, to facilitate credit access for small and medium businesses. Staff expressed strong reservations because of the contingent risks for the budget stemming from possible recapitalization needs and, in the absence of a deposit insurance scheme, the need to protect depositors in case of distress.

Financial Soundness Indicators for the Banking Sector, 2003–10
(Percent)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Jun-10
Regulatory capital to risk-weighted assets	12.1	11.9	11.1	13.1	13.6	13.9	16.5	16.8
Loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	88.5	100.9	71.7	79.8
Gross NPLs to total loans 1/	13.3	12.6	11.9	16.8	18.6	19.1	18.7	19.6
NPLs net of provisions to total loans 1/	3.3	3.4	3.2	8.8	8.6	9.3	9.7	10.6
NPLs net of provisions to capital 1/	27.8	25.1	27.2	67.9	60.7	63.9	62.3	63.7
Total deposits to total liabilities	82.0	79.6	78.3	75.8	73.6	70.3	74.9	74.9

1/ Changes in 2006 due to ICS. It was recapitalized in 2008 but past provisions remain in place.

Number of Banks Non compliant with Prudential Standards, 2003–10

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Jun-10
Minimum capital 1/	1	1	1	1	1	0	2	1
Capital adequacy 2/	2	2	2	2	2	2	2	1
Large exposures and concentration 3/	6	6	8	5	6	8	6	3
Liquidity 4/	3	1	4	4	4	4	5	8
Transformation (stable resources) 5/	3	4	3	4	6	6	6	6
Number of Banks	11	12	14	17	17	17	17	17

Sources: BCEAO and BC-WAMU.

1/ Capital equity > CFAF 1 billion.

2/ Regulatory capital/risk-weighted assets >8 percent.

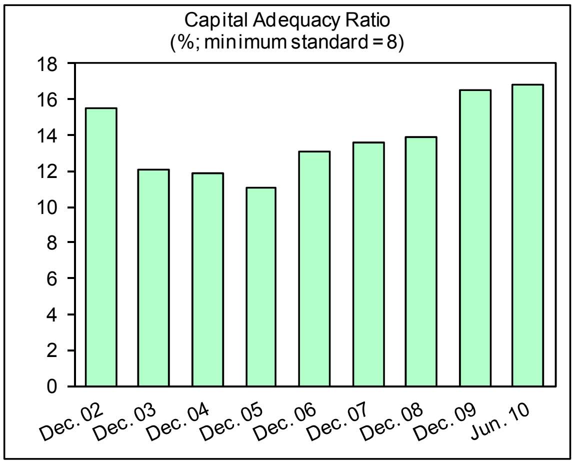
3/ (i) Loans to a single borrower/regulatory capital < 75 percent; (ii) Sum of all risks reaching 25 percent of regulatory capital < 8 times regulatory capital.

4/ Assets with residual term of less than 3 months/liabilities with residual term of less than 3 months > 75 percent.

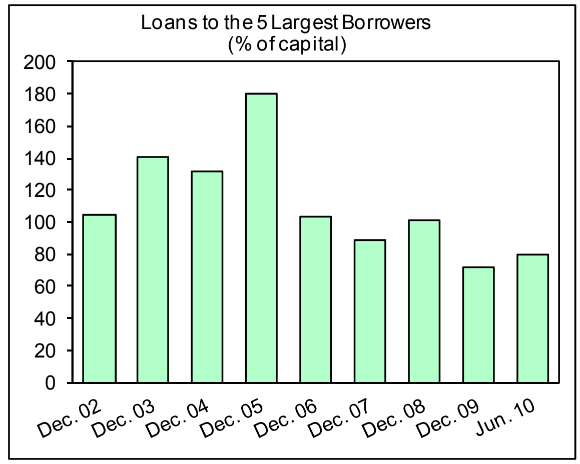
5/ Resources with residual term of more than 2 years/assets with residual term of more than two years > 75 percent.

Figure 5. Senegal: Financial Sector Issues

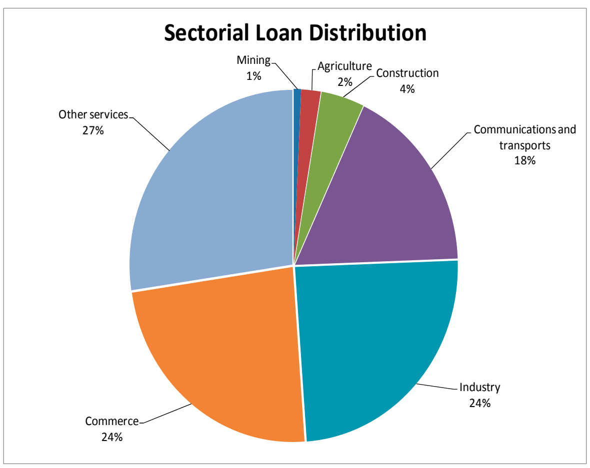
Overall, the banking sector appears well capitalized...



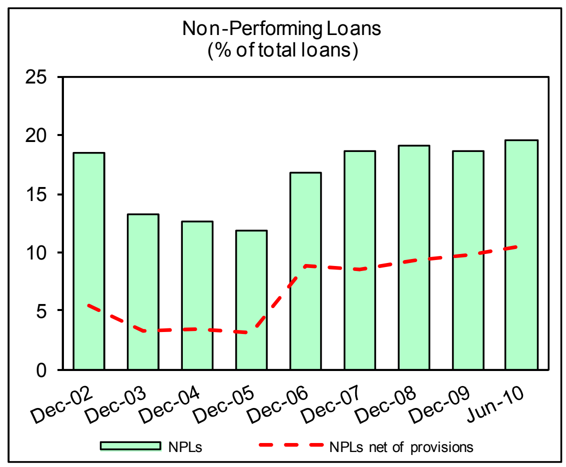
...but, though declining, loan concentration is relatively high.



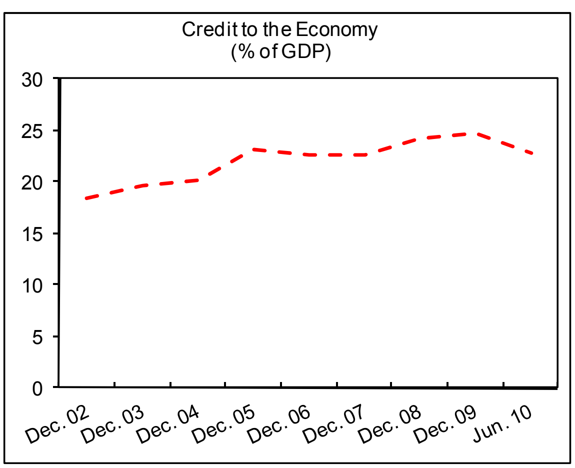
Loans focus on a few sectors, ...



... non performing loans have increased.



The gradual deepening of the banking market...



...is held back by obstacles to credit access.

Access to Credit

	Senegal	Mauritius	Morocco
Rank *(out of 183)*	150	87	87
Strength of Legal Rights Index *(0-10)*	3	5	3
Credit Information Index *(0-6)*	1	3	5
Borrowers covered by public registery *(% of adults)*	4	37	0
Borrowers covered by private registery *(% of adults)*	0	0	14

Source: Doing Business 2010

Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

22. **The authorities are re-assessing their strategy in the energy sector and intend to accelerate reforms.** They see the high cost and poor quality of electricity supplies as a major impediment to private investment. Analyses by the World Bank and Agence Française de Développement (AFD) suggest that the financial position of SENELEC (electricity) is weak. The authorities have contracted with reputable international firms to perform operational and financial audits of the sector, which they will use to set out a revised strategy (benchmark end-January 2011). Likely measures include (i) upgrading capacity; (ii) transferring oil imports from SENELEC to SAR (oil refinery) to increase transparency; (iii) making SENELEC financially sound on a permanent basis; (iv) developing more transparent financial relations between the government and SENELEC, including monthly payments of electricity bills by the government and payment of taxes by SENELEC; and (v) creating an electricity tariff regime in line with institutional changes in the sector. Plans to expand and upgrade production capacity over the coming years should reduce electricity costs in the medium term. In the interim, some support to the energy sector will be needed, and the 2011 budget includes 0.4 percent of GDP as transfers to SENELEC.

MEFP ¶23–25

23. **The government intends to strengthen non-price competitiveness through measures to improve the business climate and governance** (Figure 6). While mostly outside the core area of expertise of the Fund, they are critical to boosting private sector growth. Other priority reforms relate to the modernization of the legal and operational framework for land and property transactions to increase revenues and facilitate financial intermediation. Staff urged the authorities not to allow a new public procurement decree, which increases exemptions (including for undefined state secrets), to lower standards in this area. To minimize such risk and room for discretion, clarification would be needed. As in the first PSI, to support transparency and assess practices the program will monitor procurement. Purchases without tender should be limited to no more than 20 percent of total public procurement (quantitative indicative target).

MEFP ¶28–29

IV. Program Issues and Monitoring

24. **Quantitative assessment criteria (ACs) and structural conditionality under the three-year successor PSI compared to the existing PSI reflect the discussion above.** The ceiling on nonconcessional borrowing is modified to allow tied external borrowing for the highway extension and set a small untied limit. An indicative floor on priority spending is introduced to help ensure that priorities such as education and health are not crowded out by the authorities' stepped-up investment program. At a more technical level, the limit on the budgetary float was raised from CFAF 45 billion to CFAF 50 billion, broadly in line with the nominal increase in expenditure. Structural reforms focus on improving PFM and debt management and reducing other impediments to growth (Text Table 2). The authorities request that the cancellation of the existing PSI enter into effect following the approval of the successor PSI. Reviews and ACs will be semi-annual (the first review by end-June 2011 based on end-December 2010 ACs, the second review by end-December 2011 based on end-June 2011 ACs, and the third review by end-June 2012 based on end-December 2011 ACs).

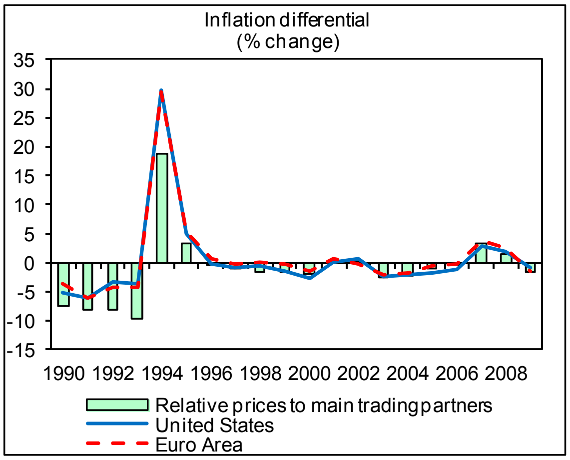
Text Table 2. Structural Benchmarks for First Review

Measures	MEFP §	Implementation Date	Macroeconomic Rationale
1. Issue decree on the powers, composition and operating procedures of the committee monitoring budget execution	14	January 31, 2011	Improve cash flow management
2. Submit tax policy reform strategy to the Council of Ministers	15	March 31, 2011	Improve tax policy and increase revenues
3. Create a new entity, by means of a regulatory text, with responsibility for managing domestic and external debt and market interventions	13	April 15, 2011	Improve debt management
4. Prepare an action plan to achieve realistic budgeting for, and regular payment of, utilities by all ministries	20	February 28, 2011	Strengthen transparency and credibility of the budget
5. Prepare a restructuring and revitalization plan for the energy sector taking into account the results of the financial and operational audits	25	January 31, 2011	Strengthen the efficiency of the energy sector and transparency of public finances
6. Publish monthly on the government's website full information on the extension of the highway, including (i) project status; (ii) planning and execution; (iii) financing and costs, and (iv) escrow account balance, within two weeks following the end of the month, starting from March 2011	11	March 31, 2011	Increase transparency in infrastructure investment

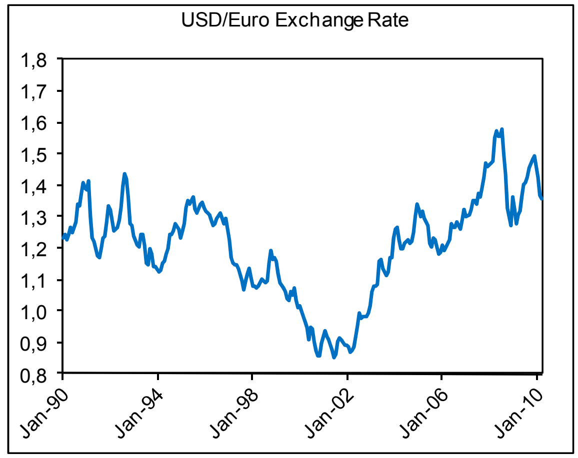
25. **The program faces risks.** They include lower global growth, backtracking on achievements in the run-up to elections, financing constraints in the regional market, implementation constraints for large infrastructure projects and their ex post profitability, and failure to strengthen PFM and the quality of spending.

Figure 6. Senegal: Exchange Rate and Competitiveness

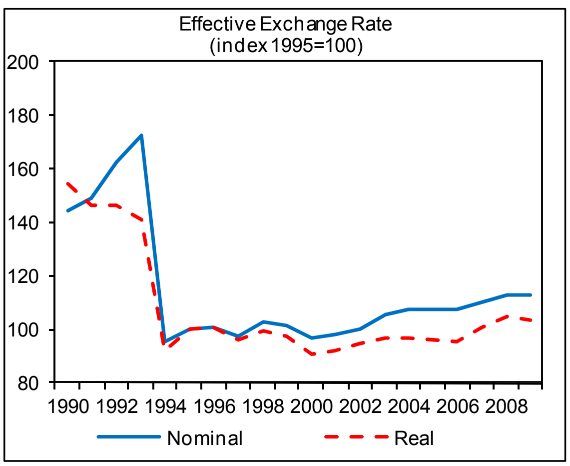
While inflation remained on average close to trading partners…



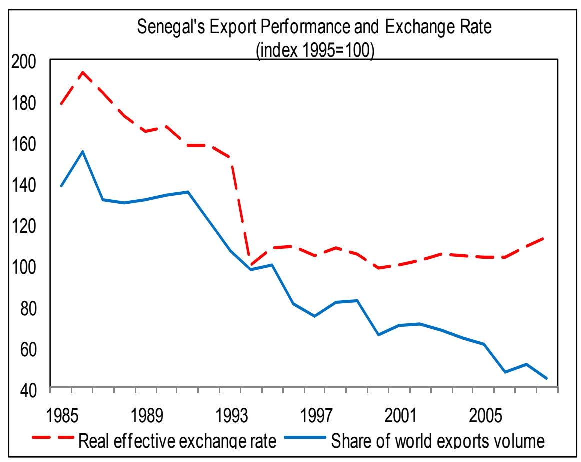
… the appreciation of the euro…



… has contributed to a moderate nominal and real effective exchange rate appreciation…



… with a marked impact on Senegal's export performance.



Raising competitiveness rests on enhancing institutions and infrastructure…

Global Competitiveness Index	2008/2009	2009/2010	2010/2011
Overall ranking	**96**	**92**	**104**
Institutions	83	77	76
o/w Transparency of government policy making	**118**	**121**	**103**
o/w Diversion of public funds	**122**	**114**	**99**
Infrastructure	83	80	112
o/w Quality of electricity supply	**118**	**113**	**125**
o/w Quality of roads	**78**	**78**	**91**
o/w Quality of railroad infrastructure	**93**	**89**	**89**
Health and primary education	109	108	118
o/w Primary enrollment	**120**	**122**	**127**
Labor market efficiency	120	110	109
o/w Rigidity of employment	**118**	**121**	**131**
Financial market development	111	110	107
o/w Ease of access to loans	**133**	**129**	**98**
Number of countries	134	133	139

… as well as the business climate.

Doing Business Indicators	2009	2010
Overall ranking	**152**	**157**
Starting a business	94	102
Dealing w ith construction permits	121	124
Employing w orkers	173	172
Registering property	164	166
Getting credit	147	150
Protecting investors	164	165
Paying taxes	173	172
Trading across borders	64	57
Enforcing contracts	150	151
Closing a business	80	80
Number of countries	181	181

Sources: IMF staff calculations and estimates; World Economic Forum; and World Bank.

V. Staff Appraisal

26. **The economy is recovering from the impact of the shocks of the past few years.** The macroeconomic policy stance has helped the country weather the global financial crisis. The recovery is still at an early stage and at risk from a slowdown in global growth and domestic developments, in particular backtracking on previous achievements in the run-up to elections and energy supply disruptions.

27. **Increasing Senegal's growth and reducing vulnerabilities and poverty require broad-based reforms.** Alleviating infrastructure bottlenecks would address one important constraint to growth. However, the proposed scaling-up of investment is not without risks and can only be successful if investments are carefully planned, economically profitable, and well implemented. The magnitude of the growth dividend of additional infrastructure investment will depend on several factors, including parallel improvements in public investment planning, non-price competitiveness, the business climate, governance, and institutional quality.

28. **Higher revenues and better spending quality are essential to creating more fiscal space for priority spending, including infrastructure spending**. Scope exists for higher revenues by broadening the tax base, reducing tax expenditures, and further increasing the efficiency of tax and customs administration. The authorities' commitment to reform in this area is encouraging, but the reduction in the VAT for tourism that is under consideration would be regrettable because it would be a step in the opposite direction. The envisaged decline in current spending relative to GDP is appropriate and should be accompanied by a careful review of spending on utilities and on contractuals in education.

29. **To help address growth bottlenecks, higher infrastructure investment will temporarily raise fiscal deficits.** To reduce carry costs and the room for diverting available resources to other uses, financing should be closely aligned with spending needs; and financing options should be carefully assessed. The fiscal deficit will need to be reduced to below 4 percent of GDP in the medium term to maintain a low risk of debt. With high financing needs, the authorities should continue to improve their public financial management, including in particular treasury and debt management.

30. **The contributions of the financial sector and the energy sector to growth need to be enhanced**. Fast implementation of the financial sector action plan is essential to improving the institutional, legal, and operational environment while reducing vulnerabilities. However, converting a development fund into a public development bank as planned is unlikely to facilitate access to credit and risks creating new contingent liabilities for the budget. In the energy sector, the envisaged acceleration of reforms is needed, in close collaboration with development partners and supported by private sector involvement. The financial and operational audits of the sector should provide a good basis for adjusting the strategy to revitalize the sector. Any additional resource needs for the sector would require difficult trade-offs.

31. **Improving non-price competitiveness and governance is also important.** The authorities are urged to consolidate previous gains in these areas without pre-electoral backtracking on previous reform successes. A new decree on the procurement framework requires clarification, in particular on exemptions, to ensure that the framework is not weakened and that risks of overspending, inefficient use of public money, and loss of donor support are contained.

32. **Staff recommends the completion of the sixth review under the PSI and supports the authorities' request for a new PSI and the cancellation of the existing PSI.** The requested cancellation of the existing PSI should enter into effect following the approval of the new PSI. All quantitative assessment criteria were met, and structural reforms subject to conditionality progressed satisfactorily. The successor PSI builds on the achievements of the first PSI, and its emphasis on growth and social sectors should be conducive to advancing the development agenda.

Table 1. Senegal: Selected Economic and Financial Indicators, 2007–15

	2007	2008	2009	2010		2011	2012	2013	2014	2015
			Est.	Prog.	Proj.			Proj.		
(Annual percentage change)										
National income and prices										
GDP at constant prices	5.0	3.2	2.2	3.4	4.0	4.4	4.7	4.8	4.9	5.0
Of which: nonagriculture GDP	6.5	1.4	1.2	3.4	4.0	4.4	4.8	4.9	5.0	5.1
GDP deflator	5.3	6.6	-0.9	2.1	1.4	2.0	2.0	2.0	2.1	2.1
Consumer prices										
Annual average	5.9	5.8	-1.7	1.6	0.8	2.1	2.1	2.1	2.1	2.1
End of period	6.2	4.3	-3.4	2.1	1.8	2.1	2.1	2.1	2.1	2.1
External sector										
Exports, f.o.b. (CFA francs)	-3.7	23.0	-9.6	17.6	9.9	12.6	8.4	8.3	7.8	7.8
Imports, f.o.b. (CFA francs)	19.5	25.8	-18.2	10.3	6.3	9.6	7.8	5.2	6.7	6.2
Export volume	6.7	-12.7	16.1	5.2	6.8	6.0	6.1	6.4	6.2	6.2
Import volume	22.0	19.9	-2.6	4.6	4.6	7.5	8.6	2.0	4.9	5.7
Terms of trade ("–" = deterioration)	-3.0	18.1	2.2	4.8	1.7	2.7	2.8	-1.0	0.0	0.1
Nominal effective exchange rate	1.9	2.9	-0.2	…	…	…	…	…	…	…
Real effective exchange rate	5.3	4.4	-1.7	…	…	…	…	…	…	…
(Changes in percent of beginning-of-year broad money, unless otherwise indicated)										
Money and credit										
Net domestic assets	8.6	6.2	6.1	10.1	11.8	9.3	7.5	7.8	5.4	5.5
Domestic credit	11.5	7.3	6.8	10.0	11.0	9.5	7.7	8.0	5.6	5.7
Credit to the government (net)	4.9	-3.5	4.2	4.7	6.4	4.7	2.6	2.8	0.0	0.0
Credit to the economy (percentage growth)	10.5	17.2	3.6	7.8	6.9	7.5	8.3	8.8	9.3	9.6
(Percent of GDP, unless otherwise indicated)										
Government financial operations										
Revenue	21.1	19.4	18.6	19.4	19.7	19.9	20.2	20.3	20.6	20.8
Grants	2.6	2.3	3.0	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	27.6	26.5	26.7	26.3	26.9	28.0	27.7	26.5	26.6	26.8
Overall fiscal surplus (+) or deficit (–)										
Payment order basis, excluding grants	-6.2	-6.9	-7.9	-6.9	-7.1	-8.1	-7.6	-6.2	-6.0	-6.0
Payment order basis, including grants	-3.7	-4.6	-4.9	-4.5	-4.8	-5.8	-5.3	-3.9	-3.7	-3.7
Primary fiscal balance 1/	-3.0	-3.9	-4.1	-3.7	-3.9	-4.7	-3.9	-2.5	-2.2	-2.3
Basic fiscal balance 2/	-1.0	-0.8	-2.9	-1.5	-1.9	-1.4	-0.8	-0.8	-0.7	-0.7
Gross domestic investment	34.0	34.1	27.9	29.1	29.1	30.3	31.2	30.9	31.4	31.6
Government	11.2	10.0	10.1	10.7	10.8	11.8	11.9	11.0	11.1	11.5
Nongovernment	22.8	24.1	17.8	18.5	18.2	18.5	19.2	19.9	20.4	20.2
Gross domestic savings	11.6	7.6	7.9	9.6	9.5	10.8	11.8	12.5	13.3	14.1
Government	7.9	5.8	5.8	7.2	7.0	7.2	8.1	8.5	8.9	9.2
Nongovernment	3.7	1.8	2.1	2.5	2.5	3.5	3.7	4.0	4.4	4.8
Gross national savings	22.2	19.8	20.2	20.4	20.8	21.3	21.7	21.9	22.4	23.0
External current account deficit (–)										
Including current official transfers	-11.8	-14.3	-7.7	-8.7	-8.2	-9.0	-9.5	-9.1	-9.0	-8.7
Excluding current official transfers	-13.2	-15.3	-8.8	-9.8	-9.1	-9.8	-10.3	-9.9	-9.9	-9.5
Central government domestic debt 3/	6.6	5.3	7.6	8.6	8.4	10.3	11.0	11.8	11.1	10.6
External public debt (nominal) 3/ 4/	17.9	19.7	27.0	27.1	31.6	33.1	34.9	35.0	36.3	37.4
External public debt service 4/										
Percent of exports	5.7	4.3	5.0	4.8	4.8	7.1	7.4	7.1	11.4	6.5
Percent of government revenue	6.9	5.9	6.5	6.2	6.0	9.0	9.3	8.8	14.1	8.0
Gross domestic product (CFAF billions)	5,408	5,950	6,023	6,345	6,350	6,765	7,221	7,723	8,273	8,875

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

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC and MDRI spending, and 2010 clearing of extrabudgetary spending and agency debt.
3/ Debt outstanding at year-end.
4/ After HIPC and MDRI (from 2006) debt relief.

Table 2. Senegal: Balance of Payments, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.			Proj.			
	(CFAF billions, unless otherwise indicated)								
Current account	-638	-851	-463	-521	-606	-685	-700	-745	-770
Balance on goods	-1,193	-1,523	-1,160	-1,201	-1,288	-1,382	-1,415	-1,497	-1,567
Exports, f.o.b.	803	988	893	981	1,104	1,197	1,297	1,398	1,507
Imports, f.o.b.	-1,996	-2,510	-2,053	-2,182	-2,392	-2,579	-2,711	-2,894	-3,074
Services and incomes (net)	-64	-82	-65	-83	-83	-77	-67	-81	-73
Credits	671	709	689	712	738	772	805	859	929
Debits	-734	-791	-754	-796	-821	-850	-872	-940	-1,002
Of which: interest on public debt	-24	-24	-23	-41	-48	-58	-59	-75	-74
Unrequited current transfers (net)	618	754	761	764	765	775	783	832	868
Private (net) 1/	566	722	721	735	737	741	744	789	820
Public (net)	52	33	40	29	28	33	38	43	48
Of which: budgetary grants	53	38	46	33	30	32	35	37	40
Capital and financial account	690	745	709	496	663	761	713	898	881
Capital account	182	111	144	125	173	212	221	231	173
Private capital transfers	7	8	8	8	8	9	9	9	9
Project grants	86	101	136	117	125	133	142	152	164
Debt cancellation and other transfers 2/	89	2	0	0	40	70	70	70	0
Financial account	508	634	565	371	489	549	492	666	708
Direct investment	131	122	140	117	123	138	168	190	228
Portfolio investment	29	21	16	34	61	48	43	62	32
Other investment	348	491	409	221	305	363	281	415	448
Public sector (net)	97	208	293	133	211	258	164	282	302
Of which : disbursements	158	264	343	186	300	350	259	456	372
program loans	19	70	55	30	34	36	38	41	44
project loans	138	192	107	156	167	179	200	227	240
other	2	2	181	0	100	135	20	188	89
Of which : SDR allocation	0	0	117	0	0	0	0	0	0
amortization	-54	-44	-50	-53	-89	-92	-95	-174	-72
Private sector (net)	254	279	116	88	94	105	117	132	146
Errors and omissions	-4	5	0	0	0	0	0	0	0
Overall balance	51	-105	246	-25	56	76	13	153	111
Financing	-51	105	-246	25	-56	-76	-13	-153	-111
Net foreign assets (BCEAO)	-75	-8	-242	13	-67	-87	-23	-162	-121
Net use of Fund resources	0	17	47	24	-2	-3	-3	-9	-19
Purchases/disbursements	0	17	47	25	0	0	0	0	0
Repurchases/repayments	0	0	0	0	-2	-3	-3	-9	-19
Other	-75	-25	-289	-11	-65	-84	-20	-153	-101
Deposit money banks	3	98	-24	-7	-7	-7	-8	-8	-9
Payments arrears ("–" = reduction)	0	0	0	0	0	0	0	0	0
Exceptional financing	21	16	20	18	17	18	18	18	18
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-11.8	-14.3	-7.7	-8.2	-9.0	-9.5	-9.1	-9.0	-8.7
Excluding current official transfers (percent of GDP)	-13.2	-15.3	-8.8	-9.1	-9.8	-10.3	-9.9	-9.9	-9.5
Gross official reserves (imputed reserves, billions of US$)	1.6	1.5	2.1	2.0	2.1	2.2	2.3	2.6	2.8
(percent of broad money)	37.2	37.1	43.4	40.4	38.4	37.5	35.1	36.0	35.6
WAEMU gross official reserves (billions of US$)	10.7	10.5	13.8	…	…	…	…	…	…
(percent of broad money)	56.6	55.0	58.8	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	6.2	5.7	7.3	…	…	…	…	…	…
Gross domestic product	5,408	5,950	6,023	6,350	6,765	7,221	7,723	8,273	8,875

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

1/ Upwardly revised from 2008 based on a new survey of workers' remittances.

2/ Includes receipts from sale of a telecom license in 2007 and MCA grants during 2011–15.

Table 3. Senegal: Government Financial Operations, 2007–15

	2007	2008	2009	2010		2011	2012	2013	2014	2015
			Est.	Prog.	Proj.			Proj.		
	(Billions of CFA francs, unless otherwise indicated)									
Total revenue and grants	1,277	1,293	1,303	1,380	1,403	1,500	1,621	1,748	1,894	2,052
Revenue	1,139	1,153	1,121	1,228	1,253	1,345	1,456	1,571	1,705	1,849
Tax revenue	1,088	1,088	1,084	1,170	1,210	1,299	1,407	1,519	1,649	1,789
Income tax	232	273	287	303	326	347	378	411	450	493
Taxes on goods and services	628	616	615	660	705	758	823	885	956	1,034
Taxes on petroleum products	215	199	182	207	180	194	206	223	244	263
Nontax revenue	51	65	37	58	43	45	48	52	55	60
Grants	138	140	182	152	150	155	165	177	189	203
Budgetary	53	38	46	45	33	30	32	35	37	40
Budgeted development projects	86	101	136	107	117	125	133	142	152	164
Total expenditure and net lending	1,491	1,579	1,607	1,668	1,705	1,892	2,001	2,048	2,202	2,380
Current expenditure	881	979	997	989	1,011	1,086	1,139	1,198	1,286	1,361
Wages and salaries 1/	327	348	364	397	397	416	440	463	496	532
Interest due	34	39	45	53	61	82	101	109	128	129
Of which : external 2/	24	24	23	29	41	48	58	59	75	74
Other current expenditure	519	593	587	539	554	588	598	626	661	699
Transfers and subsidies 3/	287	333	286	250	250	238	232	241	256	272
Of which : SAR and butane subsidy	55	69	33	0	13	15	4	0	0	0
Of which: SENELEC	0	30	30	0	0	31	0	0	0	0
Of which: Food subsidies	21	46	0	0	0	0	0	0	0	0
Goods and services	217	239	292	277	291	337	354	373	393	415
HIPC and MDRI current spending	15	21	9	12	12	12	12	12	12	12
Capital expenditure 4/	605	595	607	678	687	799	862	850	916	1,019
Domestically and nonconcessionally financed	392	314	369	404	424	518	561	519	549	621
HIPC and MDRI-financed	60	63	60	48	49	48	47	46	47	49
Non-HIPC/MDRI financed	331	251	309	357	375	470	515	473	502	572
Externally (concessionally) financed	213	281	237	273	263	281	300	330	367	398
Net lending	5	5	3	2	8	8	0	0	0	0
Of which : On-lending	10	12	6	10	10	11	11	12	13	14
Selected public sector entities balance 5/	16	13	9	0	0	0	0	0	0	0
Primary fiscal balance	-163	-235	-248	-235	-247	-316	-284	-195	-183	-203
Overall fiscal balance (including grants)	-198	-273	-293	-288	-303	-393	-380	-300	-307	-328
Overall fiscal balance (excluding grants)	-336	-413	-476	-440	-453	-548	-546	-477	-497	-531
Basic fiscal balance 6/	-54	-50	-172	-97	-119	-96	-58	-62	-58	-59
Financing	198	273	293	288	303	393	380	300	307	328
External financing	131	224	224	192	172	277	307	215	306	327
Drawings	156	262	163	205	186	200	215	239	269	284
Program loans	19	70	55	29	30	34	36	38	41	44
Project loans	138	192	107	176	156	167	179	200	227	240
Amortization due	-54	-44	-50	-51	-53	-89	-92	-95	-174	-72
Debt relief and HIPC Initiative assistance	21	16	20	18	18	17	18	18	18	18
T-bills and bonds issued in WAEMU	8	-9	4	20	21	48	31	33	6	9
Nonconcessional loans	0	0	88	0	0	100	135	20	188	89
Domestic financing	58	124	157	103	145	121	73	85	1	1
Banking system 7/	98	-46	116	100	142	116	73	85	1	1
Of which : T-bills and bonds	136	-14	52	59	63	144	94	100	19	26
Nonbank financing	-40	169	41	3	3	5	0	0	0	0
Settlement of payment delays 8/	0	-84	-95	-30	-14	-5	0	0	0	0
Errors and omissions	9	9	7	0	0	0	0	0	0	0
Financing gap	0	0	0	24	0	0	0	0	0	0
Memorandum items:										
Budgetary float (program definition)	55	66	45	45	50	50	50	50	50	50
New issues of government securities	183	131	147	220	225	323	...	...	...	...
Priority expenditure (percent of total expenditure) 9/	32	33	36	35	37	36	…	…	…	…
Gross domestic product	5,408	5,950	6,023	6,345	6,350	6,765	7,221	7,723	8,273	8,875

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

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.
2/ From 2006 on, reflects post-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
4/ Includes recapitalization of SENELEC. The government provided CFAF 65 billion in 2007 under domestically financed capital expenditure, while budget support by the World Bank and France in 2008–10 specifically earmarked for the recapitalization is being provided under externally financed capital expenditure.
5/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).
6/ Total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.
7/ Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.
8/ Within the expenditure chain in 2008–09, and extrabudgetary spending and agency debt in 2009–11.
9/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government Financial Operations, 2007–15

	2007	2008	2009	2010		2011	2012	2013	2014	2015
			Est.	Prog.	Proj.			Proj.		
	(Percent of GDP)									
Total revenue and grants	23.6	21.7	21.6	21.8	22.1	22.2	22.4	22.6	22.9	23.1
Revenue	21.1	19.4	18.6	19.4	19.7	19.9	20.2	20.3	20.6	20.8
Tax revenue	20.1	18.3	18.0	18.4	19.1	19.2	19.5	19.7	19.9	20.2
Income tax	4.3	4.6	4.8	4.8	5.1	5.1	5.2	5.3	5.4	5.6
Taxes on goods and services	11.6	10.3	10.2	10.4	11.1	11.2	11.4	11.5	11.6	11.6
Taxes on petroleum products	4.0	3.3	3.0	3.3	2.8	2.9	2.9	2.9	2.9	3.0
Nontax revenue	0.9	1.1	0.6	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Grants	2.6	2.3	3.0	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	27.6	26.5	26.7	26.3	26.9	28.0	27.7	26.5	26.6	26.8
Current expenditure	16.3	16.5	16.6	15.6	15.9	16.0	15.8	15.5	15.5	15.3
Wages and salaries	6.1	5.8	6.0	6.3	6.2	6.2	6.1	6.0	6.0	6.0
Interest payments 1/	0.6	0.6	0.8	0.8	1.0	1.2	1.4	1.4	1.5	1.5
Other current expenditure	9.6	10.0	9.7	8.5	8.7	8.7	8.3	8.1	8.0	7.9
Of which: Goods and services	4.0	4.0	4.9	4.4	4.6	5.0	4.9	4.8	4.8	4.7
Of which: Transfers and subsidies	5.3	5.6	4.7	3.9	3.9	3.5	3.2	3.1	3.1	3.1
Of which: Energy and food subsidies	1.4	2.4	1.0	0.0	0.2	0.7	0.1	0.0	0.0	0.0
HIPC and MDRI current spending	0.3	0.3	0.1	0.2	0.2	0.2	0.2	0.1	0.1	…
Capital expenditure 2/	11.2	10.0	10.1	10.7	10.8	11.8	11.9	11.0	11.1	11.5
Domestically and nonconcessionally financed	7.2	5.3	6.1	6.4	6.7	7.7	7.8	6.7	6.6	7.0
Of which: Without transfers to PEs	6.0	4.7	6.1	6.4	6.7	7.7	7.8	6.7	6.6	7.0
Externally (concessionally) financed	3.9	4.7	3.9	4.3	4.1	4.1	4.2	4.3	4.4	4.5
Net lending	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Selected public sector entities balance 3/	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-3.0	-3.9	-4.1	-3.7	-3.9	-4.7	-3.9	-2.5	-2.2	-2.3
Overall fiscal balance										
Payment order basis, excluding grants	-6.2	-6.9	-7.9	-6.9	-7.1	-8.1	-7.6	-6.2	-6.0	-6.0
Payment order basis, including grants	-3.7	-4.6	-4.9	-4.5	-4.8	-5.8	-5.3	-3.9	-3.7	-3.7
Basic fiscal balance 4/	-1.0	-0.8	-2.9	-1.5	-1.9	-1.4	-0.8	-0.8	-0.7	-0.7
Financing	3.7	4.6	4.9	4.5	4.8	5.8	5.3	3.9	3.7	3.7
External financing	2.4	3.8	3.7	3.0	2.7	4.1	4.3	2.8	3.7	3.7
Domestic financing	1.1	2.1	2.6	1.6	2.3	1.8	1.0	1.1	0.0	0.0
Settlement of payment delays 5/	0.0	-1.4	-1.6	-0.5	-0.2	-0.1	0.0	0.0	0.0	0.0
Errors and omissions	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)									
Priority expenditure 6/	8.9	8.8	9.5	9.3	10.0	9.4	…	…	…	...
Wages and salaries (percent of revenue)	28.7	30.2	32.5	32.3	31.7	30.9	30.3	29.5	29.1	28.8

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

1/ From 2006 on, reflects post-MDRI debt service schedule.
2/ Includes SENELEC recapitalization. The government provided CFAF 65 billion in 2007 under domestically financed capital expenditure, while earmarked budget support by the World Bank and France in 2008–10 is being provided under externally financed capital expenditure.
3/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants pension fund (FNR).
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.
5/ Within the expenditure chain in 2008–09 and extrabudgetary spending and agency debt in 2009–11.
6/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 5. Senegal: Monetary Survey, 2005–10

	2005	2006	2007	2008	2009	2010
					Est.	Proj.
			(CFAF billions)			
Net foreign assets	660	780	851	762	859	864
Central Bank of West African States (BCEAO) 1/	487	569	644	653	725	738
Commercial banks	173	210	207	109	133	127
Net domestic assets	894	972	1,122	1,245	1,367	1,389
Net domestic credit	1,032	1,122	1,324	1,467	1,604	1,653
Net credit to the government	-35	11	96	28	112	145
Central bank	84	45	55	-14	119	164
Commercial banks	-123	-46	21	33	-9	-22
Other institutions	4	12	20	9	2	2
Credit to the economy	1,067	1,111	1,228	1,440	1,492	1,508
Other items (net)	-138	-151	-202	-223	-236	-263
Broad money (M2)	1,553	1,751	1,973	2,007	2,219	2,300
Currency outside banks	378	453	485	474	495	498
Total deposits	1,176	1,298	1,488	1,532	1,724	1,802
Demand deposits	593	652	784	779	857	883
Time deposits	582	646	705	754	867	919
	(Change in percentage of beginning-of-period broad money stock)					
Net foreign assets	-1.2	7.7	4.1	-4.5	4.8	8.0
BCEAO	0.7	5.3	4.3	0.4	3.6	8.0
Commercial banks	-1.8	2.4	-0.2	-5.0	1.2	0.0
Net domestic assets	8.6	5.0	8.6	6.2	6.1	7.2
Net credit to the government	-4.1	3.0	4.9	-3.5	4.2	0.6
Credit to the economy	14.5	2.9	6.7	10.7	2.6	4.8
Other items (net)	-1.8	-0.8	-2.9	-1.0	-0.7	-2.0
Broad money (M2)	7.4	12.7	12.7	1.7	10.6	14.5
Memorandum items:			(Units indicated)			
Velocity (GDP/M2; end of period)	3.0	2.8	2.7	3.0	2.7	2.7
Nominal GDP growth (percentage growth)	8.3	6.5	10.5	10.0	1.2	6.4
Credit to the economy (percentage growth)	24.5	4.2	10.5	17.2	3.6	6.9
Credit to the economy/GDP (percent)	23.2	22.7	22.7	24.2	24.8	23.8
Variation of net credit to the government (from previous year; CFAF billions)	-59.2	46.3	85.1	-68.3	83.7	33.1
Central bank refinance rate (eop/latest; percent)	4.00	4.25	4.25	4.75	4.25	4.25

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

1/ Difference in 2009 between changes in NFA and NIR owing to SDR allocation.

Table 6. Financial Soundness Indicators for the Banking Sector, 2003–10
(Percent, unless otherwise indicated)

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.	2010 Jun.
Capital adequacy								
Capital to risk-weighted assets	11.7	11.5	10.8	12.9	13.5	13.8	16.3	16.4
Regulatory capital to risk-weighted assets	12.1	11.9	11.1	13.1	13.6	13.9	16.5	16.8
Capital to total assets	7.8	7.7	7.6	8.3	8.3	9.1	9.3	9.7
Asset composition and quality								
Total loans to total assets	59.6	57.1	64.0	63.8	58.8	62.8	59.5	58.1
Concentration: loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	88.5	100.9	71.7	79.8
Sectoral distribution of loans								
Industrial	41.1	33.6	35.5	28.9	25.1	19.5	27.5	22.3
Retail and wholesale trade	19.9	19.3	17.0	18.9	14.4	18.5	24.5	22.9
Services, transportation and communication	17.2	27.4	28.0	30.0	29.6	31.1	34.1	36.7
Gross NPLs to total loans 1/	13.3	12.6	11.9	16.8	18.6	19.1	18.7	19.6
Of which: without ICS	…	…	…	…	12.7	14.2	15.8	17
Provisions to NPLs 1/	75.3	75.7	75.4	52.0	53.8	51.5	53.1	51.3
Of which: without ICS	…	…	…	…	74.6	62.9	64.7	61.3
NPLs net of provisions to total loans 1/	3.3	3.4	3.2	8.8	8.6	9.3	9.7	10.6
Of which: without ICS	…	…	…	…	3.6	5.4	6.2	7.3
NPLs net of provisions to capital 1/	27.8	25.1	27.2	67.9	60.7	63.9	62.3	63.7
Of which: without ICS	…	…	…	…	23.8	35.3	38.4	42.3
Earnings and profitability								
Average cost of borrowed funds	1.8	2.0	2.0	2.2	2.3	2.8	…	…
Average interest rate on loans	8.7	11.7	11.8	11.3	11.6	13.9	…	…
Average interest margin 2/	6.7	9.7	9.8	9.2	9.4	11.1	…	…
After-tax return on average assets	1.8	1.8	1.6	1.6	1.6	1.4	…	…
After-tax return on average equity	22.1	17.6	15.8	14.6	15.3	13.0	…	…
Noninterest expenses/net banking income	48.9	48.7	47.9	49.4	50.7	51.3	…	…
Salaries and wages/net banking income	21.8	21.5	21.2	21.7	22.2	21.1	…	…
Liquidity								
Liquid assets to total assets	…	…	…	…	…	…	31.7	32.2
Liquid assets to total deposits	…	…	…	…	…	…	49.8	51.1
Total deposits to total liabilities	82.0	79.6	78.3	75.8	73.6	70.3	74.9	74.9

Source: BCEAO.

1/ NPL changes in 2006 owing to ICS. In 2008, ICS was recapitalized and the government guarantee for its bank loans was lifted. However, the loans in question remain classified as nonperforming for the time being, although without the need to provision.

Table 7. Quantitative Assessment Criteria and Indicative Targets for 2010 1/
(CFAF billions, unless otherwise specified)

	June 30, 2010			September 30, 2010		
	Assessment Criterion	Actual	Status	Indicative Target	Actual	Status
Assessment criteria						
Floor on the basic fiscal balance 2/	-49	33	Met	-73	-71	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	0	0	Met	0	0	Met
Ceiling on spending undertaken outside normal and simplified procedures 3/	0	0	Met	0	0	Met
Ceiling on government external payment arrears (stock) 3/	0	0	Met	0	0	Met
Ceiling on the amount of the budgetary float (*depenses liquidées non payées par le Tresor*)	45	31	Met	45	41	Met
Indicative target						
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	12	Met	20	5	Met

Note: see TMU for definitions of the assessment criteria and indicative target.

1/ Indicative targets for September 2010, except for the assessment criteria monitored on a continuous basis.
2/ Cumulative since the beginning of the year.
3/ Monitored on a continuous basis.
4/ Cumulative since approval of fourth PSI review.

Table 8: Millennium Development Goals 1/

	1990	1995	2000	2005	2008
2015 target: Halve 1990 US$1 /day poverty and malnutrition rate					
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*67*	67	66	65	*66*
Employment to population ratio, ages 15–24, total (%)	*59*	59	57	55	*54*
GDP per person employed (annual % growth)	*-2*	3	0	3	1
Income share held by lowest 20%	*3.5*	6.5	*6.6*	6.2	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*21.9*	20.3	14.5	..
Poverty gap at $1.25 a day (PPP) (%)	*34*	19	*14*	11	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*66*	54	*44*	34	..
Prevalence of undernourishment (% of population)	*28*	*32*	..	26	..
Vulnerable employment, total (% of total employment)	*83*	..	..	..	..
2015 target: Net enrollment to 100					
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15–24)	*28*	..	*41*	*45*	*45*
Literacy rate, youth male (% of males ages 15–24)	*49*	..	*58*	*58*	*58*
Persistence to last grade of primary, total (% of cohort)	..	..	63	53	..
Primary completion rate, total (% of relevant age group)	43	38	38	51	*50*
Total enrollment, primary (% net)	..	..	57	73	*73*
2015 target: Education ratio to 100					
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	13	*12*	12	19	22
Ratio of female to male enrollments in tertiary education	..	..	..	*46*	55
Ratio of female to male primary enrollment	73	76	86	96	*100*
Ratio of female to male secondary enrollment	*53*	..	65	75	*76*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	*10.6*	..	..
2015 target: Reduce 1990 mortality by two-thirds					
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12–23 months)	51	80	48	74	*84*
Mortality rate, infant (per 1,000 live births)	72	72	66	61	*59*
Mortality rate, under-5 (per 1,000)	149	148	133	119	*114*
2015 target: Reduce 1990 maternal mortality by three-fourths					
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15–19)	..	*114*	109	105	*104*
Births attended by skilled health staff (% of total)	..	*47*	60	52	..
Contraceptive prevalence (% of women ages 15–49)	..	*13*	11	12	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	980	..
Pregnant women receiving prenatal care (%)	..	*82*	79	87	..
Unmet need for contraception (% of married women ages 15–49)	..	*35*	..	32	..
2015 target: Halt and begin to reverse AIDS and other major diseases					
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	36	27	*22*
Condom use, population ages 15-24, female (% of females ages 15–24)	..	..	..	5	..
Condom use, population ages 15-24, male (% of males ages 15–24)	..	..	..	48	..
Incidence of tuberculosis (per 100,000 people)	195	215	237	261	*272*
Prevalence of HIV, female (% ages 15–24)	..	..	..	*0.8*	*0.8*
Prevalence of HIV, male (% ages 15–24)	..	..	..	*0*	*0*
Prevalence of HIV, total (% of population ages 15–49)	0.1	0.2	0.4	0.8	*1.0*
Tuberculosis cases detected under DOTS (%)	..	62	53	50	*48*
2015 target: Various, including halving the percentage of population with no durable access to drinking water					
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.4	0.4	0.3	0.3	..
CO2 emissions (metric tons per capita)	0.4	0.4	0.4	0.4	..
Forest area (% of land area)	49	47	46	45	..
Improved sanitation facilities (% of population with access)	26	27	27	*28*	*28*
Improved water source (% of population with access)	67	69	72	*77*	*77*
Marine protected areas, (% of surface area)	..	..	..	*0*	..
Nationally protected areas (% of total land area)	..	..	..	*11.2*	*11.2*
2015 target: Various					
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	108	76	43	61	*71*
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	18	16	13	6	*4*
Internet users (per 100 people)	0.0	0.0	0.4	4.8	8.4
Mobile cellular subscriptions (per 100 people)	0	0	3	15	44
Telephone lines (per 100 people)	1	1	2	2	2
Other					
Fertility rate, total (births per woman)	6.7	6.1	5.6	5.2	*5.0*
GNI per capita, Atlas method (current US$)	..	..	..	*800*	970
GNI, Atlas method (current US$) (billions)	..	..	..	*9.3*	11.8
Gross capital formation (% of GDP)	9.1	13.6	20.5	29.7	30.2
Life expectancy at birth, total (years)	52	53	54	55	56
Literacy rate, adult total (% of people ages 15 and above)	*27*	..	*39*	*42*	*42*
Population, total (millions)	7.5	8.7	9.9	11.3	12.2
Trade (% of GDP)	57.6	68.2	65.1	69.5	72.4

Source: World Development Indicators database and Senegalese authorities for the 2015 targets ("Rapport de suivi des OMD", April 2010).

1/ Figures in italics refer to periods other than those specified.

LETTER OF INTENT

[Translated from French]

Dakar, Senegal
November 10, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The Government of Senegal requests completion of the sixth review of its macroeconomic program supported by the Policy Support Instrument (PSI). At the same time, it is seeking approval of a new PSI for the period 2010–2013 and cancellation of the present PSI, which should come into effect following the approval of the new PSI. In support of these requests, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the present PSI and sets out the government's short- and medium-term objectives and policies under the new program.

2. These policies are consistent with Senegal's poverty reduction strategy as presented in the Poverty Reduction Strategy Paper (PRSP-II), which is nearing the end of its 2006–2010 implementation period, as well as with the third generation New Economic and Social Policy Paper (PRSP-III), which is under preparation and covers the 2011–2015 period. The new Poverty Reduction Strategy is expected to be approved in early 2011, prior to the first PSI review. The new program builds on the first PSI. It is aimed at pursuing a prudent fiscal and debt policy to maintain macroeconomic stability; raising revenue to create more fiscal space for priority spending, including additional infrastructure investment; further strengthening public financial management and governance to enhance fiscal transparency, improve the productivity of public expenditure, and reduce budgetary risks; and stimulating private sector development through structural reforms, particularly in the energy and financial sectors and other reforms related to the business climate.

3. Regarding the present PSI, all the quantitative assessment criteria for end-June and all quantitative indicative targets for end-September 2010 were met. Structural reforms have generally progressed in line with the program despite some delays regarding regularization of

extrabudgetary commitments and integration of wage expenditure in the SIGFIP expenditure tracking system.

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

5. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which also includes the debt sustainability analysis, and the PRSP Progress Report of October 2010.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of State
Minister of Economy and Finance

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

ATTACHMENT I

SENEGAL

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, November 10, 2010

I. PERFORMANCE UNDER THE PSI

1. **This memorandum reviews performance under the PSI program (2007–2010) and sets out Senegal's three-year economic program with the IMF for the period 2010–13.** The memorandum first presents a summary of progress made under the PSI program (Section I). It then defines the key objectives of the new program and identifies key reform measures for the coming three years (Section II). Section III focuses on the short-term macroeconomic framework, and the budget for 2010 and 2011. Section IV discusses program monitoring.

2. **The recent period has been marked by a challenging international environment characterized by a succession of shocks (upsurge in oil and food prices and a financial crisis) which adversely impacted Senegal's economy.** Real GDP growth is estimated at 2.2 percent in 2009. However, the economy is gradually recovering and GDP is expected to expand by 4.0 percent in 2010, reflecting in particular the favorable performance of the secondary sector and recovery of the tertiary sector. With respect to fiscal and structural reforms, major results have been obtained in the context of the PSI program:

<u>Public Finances</u>

(a) A decree has been adopted to establish a timetable and the main budget preparation methods.

(b) The presentation of the Budget Law has been improved and brought into line with best international practices.

(c) The budget and accounting year has been closed within the legally established time frames since 2008, and the budget outturn data from the SIGFIP table have been frozen and published by the end of the month of April in the following year.

(d) The interconnection of the three revenue-producing agencies (Treasury, Taxes and Government Property, and Customs) has been effectively implemented and the SIGTAS software has been extended to encompass the full set of tax centers in Dakar.

(e) The transfer of revenue collection for the *Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP) and direct taxes to the Revenue Authority (DGID) instead of the *Société Africaine de Raffinage* (SAR) and the General Directorate of Government Accounting and Treasury (DGCPT), respectively, has been carried out in order to enhance the efficiency of revenue collection.

(f) A study of tax expenditures has been prepared with a view to streamlining such expenditures.

Governance

(g) In the context of efforts to strengthen transparency and governance, delays in the production of year-end Treasury accounts (*comptes de gestion*) and budget review laws (*lois de règlement*) have been eliminated.

(h) The monthly government financial operations table (TOFE) and the weekly budget outturn generated through SIGFIP are published on the website of the Ministry of Economy and Finance.

(i) The first audit reports of the Procurement Regulatory Agency (ARMP) have been completed.

Structural Reforms

(j) An implementing decree for the new law on microfinance institutions has been adopted in an effort to strengthen financial intermediation and provide better access to credit.

(k) A financial sector action plan based on the recommendations of the Financial Sector Assessment Program (FSAP) has been prepared.

(l) In the energy sector, butane gas subsidies have been eliminated and the government has continued to pursue reforms in collaboration with its development partners.

(m) The judicial system has been strengthened through the recruitment of judges and clerks and by the establishment of special commercial chambers within the courts to deal with business disputes.

3. **Senegal's performance for the sixth review of the first PSI was broadly satisfactory.** All the quantitative assessment criteria for end-June and all the quantitative indicative targets for end-September were met. Structural reforms have generally progressed in line with the program despite some delays in the integration of wage expenditure in SIGFIP and the regularization of extrabudgetary commitments. The government prepared a

supplementary budget in May 2010, expanded SIGFIP by improving the SIGFIP-Aster interface, completed the inventory of accounts of government and public entities, and compiled the general tax code into a single document. The government also finalized the modalities for settlement of the balance of extrabudgetary expenditure in the amount of CFAF 30 billion. With a view to correcting past irregularities and avoiding a recurrence of the same type of disputes in the future, a 50 percent discount was applied to the portion of the extrabudgetary debt not contracted in accordance with the rules governing public expenditure. On October 18, the government published a press release explaining the settlement terms for all of the extrabudgetary claims. An internal audit conducted by the Office of the Inspector-General of Finance (IGF) for fiscal year 2009 was completed at end-September 2010 and is in the process of being validated.

II. OBJECTIVES AND POLICIES FOR THE THREE-YEAR PROGRAM

4. **The development strategy for Senegal will continue to focus on reducing poverty and improving living conditions.** In this connection, the government will press ahead with efforts to lay the groundwork for strong, sound, and sustainable growth, with a view to turning Senegal into an emerging market economy. Economic and financial policies will be aligned with the Economic and Social Policy Paper (PRSP-III) to be finalized in early 2011. The objectives of the proposed program build on those of the first PSI.

5. **Within the overriding goal of fostering economic growth, the key objectives of the government's action plan backed by the IMF-supported program are**: (i) pursuing a prudent fiscal and debt policy and improving expenditure quality so as to maintain macroeconomic stability; (ii) raising revenue to create more fiscal space for priority spending, including additional infrastructure investment; (iii) further strengthening public financial management and governance to enhance fiscal transparency, budget planning and execution, improve the productivity of public expenditure, and reduce budgetary risks; and (iv) stimulate private sector development through structural reforms, particularly in the energy and financial sectors, and other reforms related to the business climate.

Pursuing prudent policy in the areas of fiscal affairs, infrastructure needs, and indebtedness

6. **The pursuit of a prudent fiscal and debt policy is the main domestic instrument to maintain macroeconomic stability, which rests on maintaining low inflation and public debt sustainability**. Within the limits of available financing, a fiscal deficit of under 4 percent of GDP over the medium-term and 3 percent of GDP in the long term would accomplish these goals, which the government is committed to achieving. This will also allow reductions in the basic fiscal deficit towards balance in accordance with the relevant WAEMU convergence criterion. Prudent fiscal policy in the context of Senegal's continued

membership in the WAEMU's regional monetary and exchange rate policies will in turn help keep inflation in check.

7. **The government will make every effort to improve the composition and efficiency of expenditure.** It will adjust the expenditure mix by reducing current expenditure in order to boost capital spending. The government will reduce current expenditure by at least one percentage point of GDP between 2009 and 2013 and will conduct a detailed analysis of the composition of expenditure with a view to increasing capital spending. The government will also improve its tracking of poverty-reducing spending through improved data collection and better definition and targeting of expenditure in coordination with the World Bank and in the context of the PRSP 2011–15. A semi-annual indicative floor for social spending is incorporated in the program. Social spending is currently defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. The government will help the most underprivileged segments of the population through the expansion of conditional cash transfers to the poorest households, which is much better targeted than alternatives such as general price subsidies. The government will also expand the school canteen program, which helps strengthen household purchasing power and improve school enrollment rates and student performance.

8. **Achieving the government's growth objectives should be supported by scaling up infrastructure investment**. The government's investment program aims to reduce infrastructure constraints to improve competitiveness and increase exports of goods and services, consistent with the PRSP. Key investments for the period 2010–2012 include the following:

- construction of the Dakar-Diamniadio toll highway and its extension to the Blaise Diagne International Airport, Thiès and Mbour;
- road rehabilitation (Richard Toll – Ndioum and Ziguinchor – Vélingara);
- irrigation and water resource management;
- extension of rural electrification programs; and the
- Fast Track Project (building of classrooms with support from the World Bank).

9. **The government intends to finance its investment plans through combining alternative sources of financing, based on a sound borrowing policy in order to preserve public debt sustainability.** To this end, the government will continue to favor concessional financing and, in general, neither contract nor guarantee external borrowing on nonconcessional terms. Any new nonconcessional borrowing or any guarantees by the government or other public entities will be subject to a continuous assessment criterion (see

below) (quantitative assessment criterion). The government is aware that any nonconcessional financing must be linked to economically profitable projects (as assessed by an internationally reputable entity) and should not jeopardize public debt sustainability. The government will consult with IMF staff well in advance regarding any exceptions.

10. **Although concessional donor financing and domestic/regional financing will remain the main sources of financing in the near future, given the size of the investments concerned, the government will need additional resources.** The government therefore intends to contract external nonconcessional loans without compromising debt sustainability. It undertakes to explore appropriate financing options so as to limit overall financing costs. More particularly, in the event that the nonconcessional financing obtained exceeds project financing needs, the government undertakes to buy back its current nonconcessional debt.

11. **Nonconcessional financing will be used exclusively for the extension of the Diamniadio toll highway towards the Blaise Diagne International Airport, Thiès, and Mbour**. The government estimates the cost of this project at CFAF 224 billion over the duration of the program, which corresponds to an annual average of around 1–1.5 percent of GDP. The annual borrowing profile and conditions over the duration of the program will be finalized when the planning, implementation schedule, and financing of the project are confirmed. Studies carried out by the authorities and by an international consultant suggest that the economic profitability of this project is between 14 and 24 percent depending on the various hypotheses. To ensure that the resources are used for the planned investments, the nonconcessional financing will be deposited in an escrow account from which only highway extension payments will be made. Full information on (i) the project; (ii) the status of its planning and execution; (iii) the details of financing and updates on the cost of the works; and (iv) the escrow account, shall be posted on a monthly basis, within two weeks following the end of the month, on a dedicated government website starting from March 2011 (structural benchmark, March 31, 2011). An initial audit of the use of the funds will be conducted three months after the start of work and the report published on the dedicated government website (structural benchmark, July 31, 2011). The program includes an adjuster for the deficit related to project expenditures.

12. **The government would also like to be able to tap alternative sources of financing to fund its investments, even if the 35 percent concessionality threshold is not quite attained.** The government is seeking, in particular, a nonconcessional financing envelope of a maximum of CFAF 30 billion in 2011, including a grant element of at least 15 percent. This type of financing will not increase the fiscal deficit. The economic and social profitability of projects financed in this way must be assured. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide all the necessary prior information making it possible to ascertain the level of concessionality of the

loans as well as a brief summary of the projects and their profitability, including an evaluation by the government or the lender. The government will incorporate in subsequent MEFPs a description of the use of the funds and a status report on the implementation of the projects in question.

13. **Prudent fiscal borrowing policies will help contain external debt and the government will improve its debt management by taking the following measures:**

(a) Creation of a new entity, by means of a regulatory text, with responsibility for managing the domestic and external public debt portfolio as well as market interventions (structural benchmark, April 15, 2011). The organizational chart and a debt management procedures manual will need to be finalized by end-September 2011 at the latest (structural benchmark, September 30, 2011). The entity will be operational in early 2012 (structural benchmark, January 15, 2012). It will assume responsibility for debt issuance and repayment as well as for the management of on-lent debt and guarantees granted to public and private enterprises. The risks of these operations must be explicitly taken into account in the semi-annual public debt sustainability analysis. The entity will maintain regular contacts with potential investors;

(b) In the interim, all data on the public debt will be centralized, irrespective of the origin of the loans contracted, including the debt of public enterprises;

(c) The government will establish a national public debt policy by preparing a medium-term debt management strategy, which will be annexed to the budget starting from the 2013 budget;

(d) The government will take steps to strengthen the legal and institutional framework by modifying the legal basis of the public debt committee in order to give it greater weight, resources, and authority to act, and strengthen its capacities.

14. **The government will also improve its treasury management and take the following measures:**

(a) To improve treasury management, a committee will be set up to monitor budget expenditure execution. The committee will be responsible for examining and proposing arbitration decisions on budget expenditure execution in line with the pace of cash flow execution arising from the regularly updated weekly and monthly cash flow plans. To that end, the General Directorate of Government Accounting and Treasury (DGCPT) will prepare an order establishing the powers, composition, and operating procedures of the committee (structural benchmark, January 31, 2011);

(b) Following the recent completion of the census of government accounts, the government will formulate a strategy and timetable for the establishment of a single Treasury account (structural benchmark, September 30, 2011). This single account is understood to be a tool for optimizing government cash flow management by means of centralization in Treasury accounts and facilitation of adjustments as the need arises. Regarding the practical modalities, there are several options, including reducing the opening of bank accounts to the strictest minimum necessary, periodic automatic settlement of collection accounts opened on behalf of the revenue collection agencies, a requirement for all entities to open deposit accounts at the Treasury for holding any subsidies paid through the government budget, management by the Treasury of the resources made available to such entities by development partners where such resources take the form of loans repayable by the government, etc. A system of this kind would make it possible to end the dispersion of government resources in bank accounts where they often lie dormant. In a second phase, the government will establish a single Treasury account to strengthen the government's day-to-day cash management. In that regard, a critical thrust of the Strategic Development Plan of the Treasury Administration over the next five years is the improvement of cash management and diversification of financial instruments offered by the treasury. The government will support the DGCPT in implementing these actions and achieving the relevant objectives.

Raising Revenue to Create More Fiscal Space for Priority Spending

15. **The government intends to increase tax revenues as a percent of GDP by 2013.** Tax revenues are already high compared to other countries in the region, but have come under pressure as a result of external shocks in 2008 and 2009. The main aspects of the reform will focus on (i) rationalizing tax expenditures, (ii) improving tax and customs administration, and (iii) improving the tax system more generally with the help of an IMF technical assistance diagnostics mission on the tax system. After this mission, the government will update its reform plan and submit a tax reform strategy to the Council of Ministers (structural benchmark, March 31, 2011). The strategy will include the precise areas and timetable of reform and, if possible, a preliminary estimate of their impact on revenue.

16. **The government will focus on reducing tax expenditures to raise revenues and increase the transparency and efficiency of the tax system**. The government has conducted analyses of the costs and benefits of tax expenditure in consultation with domestic and international partners and is beginning their reduction in the 2011 budget. Going forward, key milestones in reducing tax expenditures will be as follows:

(a) Rationalize the management of the arrangements governing the exemption applicable to petroleum products, in particular by entrusting this regime to staff of the tax administration (DGID) and customs (DGD) (in 2011);

(b) More effectively manage tax expenditures pertaining to headquarters agreements and the Vienna Convention;

(c) No further memoranda of understanding with enterprises and no renewal of current MOUs upon their expiration (effective 2011);

(d) Strengthen the culture of evaluation and foster the sharing of results. In addition to performing an ex ante assessment prior to the adoption of any new tax expenditure, it will be desirable to conduct strict monitoring and assessment of any tax incentive measures remaining within the system. Accordingly, periodic assessments should be carried out, through the adoption of clearly defined indicators making it possible to ensure the effective attainment of objectives underlying the adoption of the tax incentive in question (beginning in 2011);

(e) The Ministry of Economy and Finance will be responsible for the coordination of all tax reforms and will systematically encourage consultation with all participants in the tax chain. The government undertakes to put in place a new, simple, and efficient general tax code containing proper incentives (in 2011), that abolishes all special relief arrangements (*régimes dérogatoires*) that have proven to be inefficient and excessively complex as well as costly to manage; and

(f) Strengthen the staffing of DGID so as to maintain its performance levels. This will involve, in particular, addressing (i) technical skill deficiencies in the land registry, replacement of staff to fill the gap arising from the large number of planned retirements in the next few years.

17. **The government will modernize tax administration on the basis of the strategic tax administration plan developed by the DGID. The following key actions will be taken**:

(a) Strengthen computerization of all tax, land registry, real estate, and government property operations (remote procedures, computerization of the Land Registry, etc.) in the context of integrated management, to ensure greater transparency and enhance the efficiency of services.

(b) Plan to streamline the organization of the external services of the DGID. The purpose will be to create by end-2012 inter-regional operational directorates established in Dakar and in certain key communities in regional areas of Senegal. At the same time, the current directorates, which are primarily operational, should become functional structures primarily designed to assist the General Director in his managerial functions. Such a shift would reduce the number of functional structures by merging some based on criteria of relatedness and rational management.

(c) Use more segmentation of tax payers and improve risk management, in particular by creating, besides the large taxpayer unit that already exists, two specialized units for medium-sized enterprises in the department of Dakar that would focus on the 90 percent of enterprises that generate most VAT and corporate tax revenue (by around end-2011); pursue and expand the mechanism for the electronic archiving of documents at the Bureau of Documentation.

18. **The government will modernize the customs administration on the basis of the strategic plan developed by the DGD.** The following measures are envisaged:

(a) Rollout of the portable customs computer system GAINDE 2010 in December 2010 and broadening the scope of automated customs clearance to encompass the entire national territory by December 2011;

(b) Creation of databases on maritime information (BATAVIS*)* and a national information and documentation file (*Fichier National d'Informations et de Documentation* (FNID)) by end-June 2012;

(c) Strengthen efforts to combat customs evasion by: (i) full-scale implementation of the 24-hour operation of port services in order to speed up the processing time and relieve the backlog in the port's facilities, by end-June 2011; (ii) the rollout of a system for the electronic measurement of petroleum products by March 2011; and (iii) upgrading of maritime surveillance through the pooling of resources on the basis of a partnership with the National Navy, the Naval Administration, or other entities in March 2011.

(d) Greater importance will be attached to risk detection and management. For this purpose, the government will put in place a risk management application in GAINDE to integrate all customs data and master the system by end-December 2011. The government will also focus on improving the management of training and human resources while easing red tape for the private sector.

(e) Computerization of administrative and customs procedures in December 2012.

Strengthening PFM and governance

19. **The government is committed to building on recent progress in improving public financial management and governance and taking into account the latest WAEMU Directives.** The reforms will be based on the Plan de Réformes Budgétaires et Financières (PRBF, September 2009)—agreed between the government and development partners and

based in part on the 2007 PEFA (Public Expenditure and Financial Accountability) report—and more recent IMF technical assistance (in March 2010). The government is committed to maintain the progress that has been made so far in terms of budget preparation, modification and execution as well as improvements in accounting quality and the timely presentation of accounts. To advance reforms further, the government plans to:

(a) Submit the budget review law for 2006 to Parliament by end-March 2011 and the budget review laws for 2007, 2008, and 2009 by end-September 2011;

(b) Submit the draft organic law on budget laws to Parliament by end-December 2010;

(c) Adopt the decree pertaining to the General Regulations governing Public Accounting (RGCP) by end-June 2011;

(d) Adopt the decree pertaining to budget nomenclature by end-July 2011;

(e) Adopt the decree pertaining to the government chart of accounts by end-August 2011;

(f) Adopt the decree pertaining to the government financial operations table (TOFE) by end-September 2011;

(g) Adjust each annual budget through a supplementary budget or, if necessary, two supplementary budgets, the first one in the middle of the year and the second one towards the end of the year;

(h) Further decentralize the payment authorization process to five additional ministries by end-December 2010. Launch a capacity building program for ministries in 2012 on the new legal and regulatory framework. Test the program-based budget nomenclature in two (2) sectoral ministries (environment and justice) in 2013.

(i) Better capture the fiscal risks associated with public sector operations and the financial flows related to quasi-fiscal activities of public enterprises and private enterprises, where applicable, as well as other public entities, including local governments, in an annex to the initial budget. The annex will also list contingent liabilities, resulting, in particular, from loans or other commitments of said enterprises, public entities (including SENELEC), or local governments, backed or guaranteed by the government, as well as PPPs;

(j) By end-December 2011, conduct a PEFA assessment to evaluate progress in relation to the November 2007 PEFA.

(k) Support the DGCPT in its reforms aimed at improving the information systems (ASTER, COLLOC, etc.) and increase its operational staff;

(l) Define and apply a harmonized financial and accounting regime by category of public entity (government health agencies, universities, and agencies, etc.).

20. **The government is determined to plan operating expenditure in a realistic manner.**

(a) Regarding spending on utilities, the government will conduct an exhaustive inventory of its water, electricity, and telephone service contracts and establish the suppliers what the central government is responsible for. It will strive to provide budgetary allocations that cover the cost of utilities. Following agreement on a standard format, utility invoices must be forwarded on a bi-monthly basis to the appropriations managers who will take all the necessary steps to ensure that payment is provided as a matter of priority. The payments must be executed by the due date and duly supported by proper, detailed invoices. The government is determined to put in place a system for the management of its water, electricity, and telephone bills by drawing up an action plan (structural benchmark, February 28, 2011) including the following measures: (i) establishment of a list of ministries' water, electricity, and telephone bills; (ii) conclusion of an agreement with the supplying companies (SDE, SENELEC, and SONATEL) on a standard format for detailed invoices; (iii) obtaining from these companies full detailed information, in keeping with the agreed invoice format, on past consumption levels to enable each ministry to make realistic projections for budgetary purposes; (iv) issue a MEF circular explaining to ministries how to present and assess their utility expenditure allocations in the budget; (v) treat utility expenditure as priority spending in the commitment and cash flow plans, and order the comptrollers of financial operations to suspend all other payment orders until the ministry has settled its utility expenditure arrears;

(b) Regarding contractuals in the education sector and the beneficiaries of higher education allowances (scholarships and grants), the government, in conjunction with the World Bank, will carry out an assessment of the budgetary needs and ensure that the relevant expenditures are included in the budget forecast. An IGF audit has been verifying its findings with counterparts in education since August 20, 2010. Findings will be summarized and a report produced by December 31, 2010.

21. **The process of planning, evaluating, and selecting public investment projects will be improved to raise the productivity of spending.** Present practice and intentions for the future are as follows:

(a) Sectoral ministries and other public and para-public entities are being provided each year with program authorizations consistent with the macroeconomic framework derived in consultation with the IMF and the priorities set forth in the PRSP. These program authorizations are accompanied by an indicative payment appropriations schedule for the next three years; the actual payment appropriations recorded for each annual tranche and the schedule for the following years are revised every year to take account of the actual advancement of projects underway and revisions to the macroeconomic framework agreed with the IMF; the payment appropriations needed to ensure ongoing work under current projects are included in the budget every year as a priority; the program authorizations and payment appropriations related to new projects are included in the budget after taking account of the ongoing needs of projects underway and within the limits of the remaining room in the macroeconomic framework agreed with the IMF;

(b) In the education, health, environment, and agriculture sectors, planning structures have been set up. In the context of the PSI program, the government has taken steps to equip these entities to be able to analyze projects and programs and determine their economic and social returns using the cost-benefit method as well as their financial return for the concessionaire or partner, where applicable. The government is determined to have all new projects and programs analyzed, where the cost is greater than or equal to CFAF 250,000,000 in these sectors (education, health, environment, and agriculture).[1] Recurrent costs will be taken into account for each project.

(c) To harmonize the evaluations and facilitate the process, the Planning Directorate, in conjunction with the actors concerned, will prepare a "Guide for Project Preparation" before end-March 2011 and a "Guide for the Evaluation of Projects with an Economic Return" (structural benchmark, July 31, 2011). These guides will enable line ministries to evaluate projects and to accurately prepare documents on proposed programs that are to be submitted to the Ministry of Economy and Finance.

(d) In addition to the four abovementioned test sectors, the government intends to create dedicated planning units in six other sectors, include transport and internal security by 2012;

(e) Beginning in 2011, the Ministry of Finance will begin reviewing, at the technical level, all completed project analyses to ascertain whether projects exceed a minimum threshold of economic and social return.

[1] This threshold applies to all programs and projects carried out in the sector by both the central government and government agencies.

Private Sector Development

22. **The government is committed to advance reforms expeditiously to support private sector development,** with a particular focus on the energy and financial sectors as well as the water and sanitation sectors, the business climate, and governance.

Energy sector

23. **The measures adopted by the government in 2010 are as follows**: With regard to SENELEC, (i) continuation of the program to reduce losses that are not technical in nature and strengthen business activities; (ii) criminalization of fraud; (ii) reopening of the GTI power station in April 2010; and (iv) start of measures to unbundle SENELEC's activities beginning with the separation of accounts. With respect to SAR, since September 2006, the government has made major strides which have allowed for the resumption of refining activities, in particular, the replacement of the FOB MED benchmark contract with the CIF NWE contract (Rotterdam-Dakar), the establishment of the Fund for Safeguarding Imports of Petroleum Products or FSIPP (*Fonds de Sécurisation des Importations en Produits Pétroliers)*, and the granting of a margin of temporary support for refining (up to 2012). This margin of support has, for instance, made it possible for SAR to obtain a loan through the banking system to repay its debt to suppliers. The government did not provide any payment guarantee to the banks in the context of the SAR financing operation. Finally, in order to have access to sufficient storage capacity to ensure adequate market supplies, in partnership with the DIPROM group, the government established a petroleum products storage depot with a capacity of 164,000 cubic meters on the Mbao site. This partnership resulted in the creation of the company SENSTOCK whose authorized capital of CFAF 12.4 billion is distributed as follows: government of Senegal through PETROSEN (46 percent), DIPROM (34 percent), and SAR (20 percent). However, the government intends to withdraw from the capital of SENSTOCK over time to allow PETROSEN to refocus its activities on upstream petroleum operations. PETROSEN would, therefore, sell its equity in SENSTOCK to the distributors. Concerning SAR, its capital is currently majority-owned by the private sector, with 34 percent by the Saudi Binladen Group (SBG) and 20 percent by Total. The government, through PETROSEN, currently holds a 46 percent share of the capital and plans to divest 17 percent to SBG, thus retaining only a 29 percent strategic participation in the capital of SAR.

24. **The government is committed, pending the definition of a recovery and restructuring plan for the energy sector, to implementing the following measures in the very short term with a view to making up the shortfall in SENELEC's production capacity and mitigating its cash flow difficulties so as to guarantee adequate and continuous power supplies:**

(a) pending the coming on stream of the coal-fired power plant, gradually install, starting November 2010, additional power capacity of 100MW. This gradual installation, aimed essentially at making up for the existing capacity shortfall and limiting revenue losses, will be done in a manner that will be neutral for the government's 2010 budget. Possible options include the rental of generators by SENELEC;

(b) the transfer of SENELEC's fuel imports to SAR;

(c) absorption by the government of SENELEC's loss of earnings resulting from the level of electricity rates in 2010. The amount of the loss to be offset is estimated at CFAF 13 billion. It will be included in the 2011 budget within the agreed macroeconomic framework. The government will make available to the World Bank and the French Development Agency (AFD), by end-November 2010, all the necessary documentation to enable disbursement of the second tranche of budget support estimated at a total of CFAF 16 billion. This equals a remaining amount of CFAF 7 billion for the recapitalization of SENELEC and CFAF 9 billion to be on-lent by the government to SENELEC in conformity with the energy sector reform program supported by the World Bank and the AFD; and

(d) the government intends to set up the oil and gas downstream regulatory authority (*l'Autorité de Régulation de l'Aval du sous-secteur des Hydrocarbures* (AURAH)) by December 2010.

25. **The government is committed to preparing and implementing a restructuring and recovery plan for the energy sector**. The plan will be prepared, and its implementation monitored, by a committee whose membership will be representative of all stakeholders in the sector (institutions, professionals, workers, consumers, etc.) as well as development partners and other relevant persons. The order establishing the committee has already been enacted (October 2010). The preparation of the restructuring plan (structural benchmark, January 2011) requires that diagnostic studies and technical, accounting, and financial audits of SENELEC and SAR are first conducted. A study of the sector will also be carried out to analyze the various financial flows. The government intends to commission internationally reputable firms to carry out these studies and audits.

The plan resulting from these studies and audits should give the government a better understanding of the functioning of the sector. It should include management tools and monitoring indicators that not only help to ensure better corporate governance of the key enterprises in the sector, SENELEC and SAR, but also serve as early warning mechanisms to facilitate rapid decision-making.

The plan should also deal with controlling the operations of SENELEC and SAR. It should make it possible, over the period 2010-2014, to ensure the financial health of the sector, better balance between power supply and demand, and efficient fuel, crude oil, and butane gas supplies to SENELEC and SAR to guarantee an optimal quality of service at lowest cost. To that effect, a pricing policy needs to be adopted, with particular attention to the price fixing and adjustment mechanism, consistent with the objectives of the plan. If needed, existing pricing legislation and regulations should be reformed. The restructuring plan should also outline procedures for clearance of the debt due to SENELEC by local governments for public lighting as well the outstanding amounts owed by hospitals, universities, and well drilling works (*forages*), amounting to an estimated total of CFAF 17 billion in 2010. In addition to these debt settlement procedures, the plan should include measures aimed at avoiding any further accumulation of such debt.

Regarding SENELEC's tax debt, currently estimated at CFAF 25 billion, the restructuring plan should outline procedures for its clearance. It should also provide for measures to ensure strict compliance by SENELEC with all its tax and customs obligations.

Regarding the planned institutional reform, involving the unbundling of SENELEC's activities (production, transport, and distribution), in light of the crisis situation in the sector and pending a return to normal conditions, the government has decided to suspend the reform. The diagnostic studies and sector audits currently being launched should provide answers as to the appropriateness of unbundling given the challenges and objectives being addressed in the restructuring plan. The plan should also put forward options for increasing or improving private sector participation in the power sector. In the interim, SENELEC needs to put in place an analytical accounting system with cost and profit centers.

Water and Sanitation Sector

26. **The government is committed to taking steps to maintain the financial equilibrium of the water and sanitation sector.** This involves, in particular, (i) establishing a mutual debt settlement arrangement, (ii) negotiating a moratorium on the payment of arrears, (iii) timely payment of all current water bills by the various administrations, and (iv) carry out a review of water tariffs and simulations of tariff adjustments aimed at generating budget savings of CFAF 7 billion in 2011. The simulations will provide indications of the tariff increases needed in 2011.

Financial Sector

27. **The government will implement the action plan for the second national dialogue on credit which was held on March 16–17, 2010**. A committee, set up by the Minister of Economy and Finance, is responsible for monitoring the implementation of 65 measures under 11 strategic themes. These themes include reforms relating to financing, the banking sector, insurance sector, microfinance institutions, and other financial intermediaries, as well

as the legal environment, and arrangements for access to financial services. The following are considered priority measures:

(a) Establishment of the legal framework allowing for the creation of private credit registers and rating agencies;

(b) Adoption of a specific law to support the development of leasing activities in Senegal (structural benchmark, June 30, 2011);

(c) Strengthening banking penetration and the spread of cashless bank payment instruments;

(d) Improving banking supervision. In light of the role of foreign banks in Senegal, the monetary and supervisory authorities will strengthen their policy of cooperation with the competent authorities of the relevant countries for more effective banking supervision to maintain the stability of the banking system. Regarding microfinance, efforts should be made to achieve greater coordination between the interventions of the various donors, on the one hand, and those of the two ministerial departments responsible for the microfinance sector, on the other;

(e) Searching for private majority shareholders for all banks in which the government holds a majority interest, in compliance with the WAEMU Council of Ministers' recommendation that government shareholdings in banks be gradually reduced to, or maintained within, the 25 percent maximum limit.

(f) Regarding *Poste Finance*, it is important that the necessary steps be taken to accelerate the process of institutional change underway in the company in line with its assigned missions to ensure that its operations are in conformity with the existing legal and regulatory framework. If it is not changed into a bank or a financial institution, the company should revert to its status as a government entity if it is to continue taking deposits. In that regard, the government has decided to conduct a performance evaluation study of *Poste Finance.* The findings of the study, to be completed in the first quarter of 2011, should provide the government with all the information it needs to make a decision on the preferred option.

Other factors for improving the business climate and governance

28. **The government has started to give new impetus to business climate reforms.** The immediate aim in the upcoming years is to improve the business climate by implementing the decisions adopted in the context of the Presidential Council on Investment, which would also help to raise Senegal's ranking in the Doing Business Indicators. The focus

will be placed inter alia on computerization of procedures. The following reforms will be put in place on a priority basis over the next three years:

(a) Establishment of a one-stop shop within the mayoral offices in order to examine applications for building permits, and computerization of the process for the issuance of building permits;

(b) Acceleration of the computerization of the Land Registry with a view to making it available online so as to ensure the publication of property rights in real time, including sales of government property;

(c) Introduction of a combined mechanism for real estate registration and notification;

(d) Adoption of texts amending real estate legislation (law establishing the regime for real estate ownership and its implementing decree);

(e) Lowering the cost of transferring ownership. The government may facilitate access to property ownership by reducing registration duties from 15 percent to 10 percent (to be considered in the context of the reform of the tax system);

(f) Expedited recruitment of staff for the land registry office, in particular surveyors.

(g) Computerization of the register of real estate credit and commerce (RCCM), in coordination with the development partners;

(h) Alignment with OHADA provisions on the functioning of the RCCM and the introduction of judicial statistics.

29. **With regard to economic governance, the government will endeavor to put in place the following actions:**

(a) Implement the reform of the Audit Court giving it the authority to produce an annual assessment of government accounts and issue an opinion on the draft budget review laws;

(b) The government has adopted a decree that changes the procurement code to address what the authorities viewed as various shortcomings and particularly for security reasons. The authorities remain committed to limiting the share of contracts awarded on a noncompetitive basis to 20 percent of all government contracts (indicative target) and to ensure the availability of appropriate resources to enable the Public Procurement Regulatory Authority (ARMP) to function autonomously.

(c) Implement measures to ensure the availability of adequate resources for the National Council against Nontransparency, Corruption and Extortion.

(d) Implement the new code of corporate governance;

(e) Implement reforms to make land transactions more transparent and publish government land sales in the private domain. An inventory of both public and private domain government property (improved and unimproved) will be carried out by June 2011 and regularly updated. All sales of government property must be conducted in accordance with the laws and regulations in force and the proceeds of the sales recorded in the budget.

III. The Policy Agenda for the Remainder of 2010 and 2011

Macroeconomic context

30. **Growth in Senegal is expected to continue to recover as the impact of the external shocks wanes.** The government's program is based on reaching an economic growth rate of some 4.4 percent in 2011. Inflation is expected to be below the 3 percent threshold set in the WAEMU convergence pact. The current account of the balance of payments (including official transfers) is projected to slightly widen to some 9 percent of GDP and to be financed by government loans and foreign private capital, including modestly rising foreign direct investment. Senegal's overall balance of payments is projected to be positive and contribute to the Union's foreign exchange reserves.

31. **These projections are subject to substantial risks.** A more subdued international recovery than anticipated, or return to recession, could negatively affect these projections. Marked declines in remittances, official aid, available financing on the regional market, exports, or foreign direct investment would have a negative impact on economic growth and the balance of payments. Also, continued implementation of energy sector reform is essential to minimize risks of a growing adverse impact on economic activity and public finances**.**

Fiscal Policy

32. **The targeted overall fiscal deficit is 4.8 percent of GDP in 2010 (not counting the settlement of extrabudgetary spending).** The government will submit a supplementary budget for 2010 to Parliament in line with the macroeconomic framework agreed with Fund staff (<u>prior action</u>). The supplementary budget will reallocate current and capital expenditures to cover, in particular, additional expenses related to the costs of contractuals in the education sector.

33. **The government intends to settle any remaining extrabudgetary spending that would have been approved and become "due and payable" as set out in its October 2010 communiqué, and to publish a press release summarizing results, including the results of the fiscal year 2009 audit (**<u>structural benchmark</u>, June 30, 2011). These payments, if any, will finally settle the 2008 issue of extrabudgetary expenses and public institution and agency debt.

34. **For 2011, the budget submitted to parliament in October 2010 is in line with the macroeconomic framework agreed with Fund staff (prior action).** The budget has a deficit of 4.5 percent of GDP (excluding spending related to the investment for the highway extension). Furthermore, it keeps social outlays at 35 percent of total spending, and increases capital expenditure to over 11.5 percent of GDP. The budget includes a contingency reserve equal to 5 percent of total appropriations for current spending (excluding wages) and domestically-financed capital expenditure (excluding capital spending earmarked for the highway), to allow the budget to be executed even in case of urgent and unforeseen spending or adverse changes in revenue or financing. The level of availability of the reserve will be included in the SIGFIP tables sent to Fund staff. To address past underbudgeting for utilities and education, the 2011 budget includes more realistic appropriations. All new spending requests will be addressed within the framework of the existing budget envelope.

Program Monitoring

35. **Assessment criteria for end-December 2010, end-June 2011, and end-December 2011 and quantitative indicators for end-March and end-September 2011 have been proposed** in order to monitor program implementation in 2010 and 2011 (see MEFP Table 1 below). The government and Fund staff have also agreed on the prior actions and structural benchmarks in MEFP Table 2. Reviews will take place at 6-month intervals. The first review should be completed by end-June 2011, the second review by end-December 2011, and the third review by end-June 2012.

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

	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
			Proposed		
Assessment criteria					
Floor on the basic fiscal balance 2/	-119	*-24*	-48	*-72*	-96
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/ 5/	0	500	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0	0	0
Ceiling on the amount of the budgetary float (*depenses liquidees non payees par le Tresor*)	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 4/	0	30	30	30	30
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	*35*	…	*35*	…	*35*

1/ Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.
2/ Cumulative since the beginning of the year.
3/ In US$ millions for the period 2011–13.
4/ Monitored on a continuous basis.
5/ Cumulative since start of the second PSI.

Table 2 of MEFP: Structural Benchmarks, 2010-11

Measures	MEFP §	Implementation Date	Benchmark for review	Macroeconomic significance
CONTAINING THE BUDGET DEFICIT				
Submit to Parliament a supplementary budget for 2010 consistent with the macroeconomic framework agreed with IMF staff	32	November 22, 2010	Prior action	Macroeconomic stability
Submit to Parliament a budget for 2011 consistent with the macroeconomic framework agreed with IMF staff, and including a contingent reserve equal to 5 percent of current nonwage expenditure and domestically-financed capital expenditure excluding expenditures for the highway extension	34	October 15, 2010	Prior action	Macroeconomic stability
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT				
Issue decree on the powers, composition and operating procedures of the committee monitoring budget execution	14	January 31, 2011	1st	Improve cash flow management
Submit tax policy reform strategy to the Council of Ministers	15	March 31, 2011	1st	Improve tax policy and increase revenues
Create a new entity, by means of a regulatory text, with responsibility for managing domestic and external debt and market interventions	13	April 15, 2011	1st	Improve debt management
Prepare a guide for the evaluation of projects with an economic return	21	July 31, 2011	2nd	Improve investment planning
Create the organizational chart and procedures for the entity responsible for managing the domestic and external public debt portfolio as well as market interventions	13	September 30, 2011	2nd	Improve debt management

CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT				
Prepare an action plan to achieve realistic budgeting for, and regular payment of, utilities by all ministries	20	February 28, 2011	1st	Strengthen transparency and credibility of the budget
Settle the final amounts, if any, of extrabudgetary expenditure and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit	33	June 30, 2011	2nd	Strengthen public financial management and fully normalize financial relations with the private sector
Formulate a strategy and timetable for the establishment of a single Treasury account	14	September 30, 2011	2nd	Strengthen public financial management
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE, AND RAISING EFFICIENCY IN THE FINANCIAL AND ENERGY SECTORS				
Prepare a restructuring and revitalization plan for the energy sector taking into account the results of the financial and operational audits	25	January 31, 2011	1st	Strengthen the efficiency of the energy sector and transparency of public finances
Publish monthly on the government's website full information on the extension of the highway, including (i) project status; (ii) planning and execution; (iii) financing and costs, and (iv) escrow account balance, within two weeks following the end of the month, starting from March 2011	11	March 31, 2011	1st	Increase transparency in infrastructure investment
Conduct an initial audit of the use of the funds earmarked for extension of the highway three months after the start-up of works and publish the report on the government's website (structural benchmark)	11	July 31, 2011	2nd	Improve the transparency of infrastructure-related investments
Finalize legislation supporting leasing activities	27	June 30, 2011	2nd	Improve the efficiency of the financial sector

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, November 10, 2010

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2010–2011. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation

I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for end-December 2010, end-June 2011, and end-December 2011 and quantitative indicators for end-March and end-September 2011 are shown in Table 1 of the MEFP. The prior actions and structural benchmarks established under the program are presented in Table 2.

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government

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

B. Basic Fiscal Balance (Program Definition)

Definition

4. The basic fiscal balance (program definition) is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure related to extension of the highway, concessional externally financed capital expenditure, drawings on on-lent loans, expenditure funded with HIPC- and MDRI-related resources, and expenditure related to the settlement of agency debt and extrabudgetary arrears identified in the July 2009 audit and included in the first supplementary budget for 2010. Interest charges on financing of the highway extension are excluded in 2011. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses ordonnancées prises en charge par le Trésor*). This

assessment criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

Example

5. The floor for the basic balance (program definition) as at December 30, 2010 is –CFAF 119 billion. It is calculated as the difference between budgetary revenue (CFAF 1,253 billion) and total expenditure and net lending (CFAF 1,705 billion), excluding externally financed capital expenditure (CFAF 263 billion), drawings on on-lent loans (CFAF 10 billion), and expenditure funded with HIPC-and MDRI-related resources (CFAF 61 billion).

Reporting requirements

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

C. Social Expenditure

Definition

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

Reporting requirements

8. The authorities will report semi-annual data to Fund staff within two months following the end of the year.

D. Budgetary Float

Definition

9. The budgetary float (*instances de paiement*) is defined as the outstanding stock of government expenditure for which bills have been received and validated but not yet paid by the Treasury (the difference between *dépenses liquidées* and *dépenses payées)*. The

assessment criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

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

E. Spending Undertaken Outside Simplified and Normal Procedures

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

12. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 10, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Government External Payments Arrears

Definition

13. External payments arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 15 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

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

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

Definition

15. This assessment criterion applies to debt with nonresidents contracted or guaranteed by the government. This assessment criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 12274-(79/140), last amended by Executive Board Decision No. 14416–(09/91), adopted August 31, 2009, but also to commitments contracted or guaranteed by the government for which funds have not been received. The criterion does not apply to:

(i) CFAF debt contracted or guaranteed by the government with WAEMU residents;

(ii) CFAF debt initially contracted or guaranteed by the government with WAEMU residents subsequently acquired by nonresidents;

(iii) CFAF government or government-guaranteed debt where the agreement is between the government and a WAEMU resident entity and there is no ensuing contractual obligation between the government and a nonresident entity, regardless of whether the resident WAEMU entity resells the debt to a nonresident;

(iv) debt rescheduling transactions of debt existing at the time of the approval of the PSI; and

(v) external debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport.

(vi) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.

16. This assessment criterion is measured on a cumulative basis from the time of approval of the program and applies continuously. No adjuster will be applied to this criterion.

17. For purposes of this assessment criterion, government is understood to include the government as defined in paragraph 3 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled

independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

18. Any external debt of which the present value (PV), calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending.[1] The discount rate used for the calculation of PV is based on the OECD commercial interest reference rate (CIRR) for the currency of payment.[2] [3] For debt with a maturity of more than 15 years, the average of the ten-year CIRR is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. In addition, the CIRR is refined by an adjuster based on the maturity of the debt (0.75 percentage points for maturities of less than 15 years, 1 percentage point for maturities of between 15 and 19 years, 1. 15 percentage points for maturities of between 20 and 29 years, and 1.25 percentage points for maturities of 30 years or more).

19. A ceiling of US$500 million applies over the period 2011-13 for nonconcessional financing tied to the highway extension Diamniadio-International Airport Blaise Diagne/Thiès/Mbour. The funds obtained in this way will be deposited in an escrow account from which only highway extension payments will be made.

20. A separate ceiling of CFAF 30 billion in 2011 applies for untied nonconcessional external debt with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

21. 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.

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

[2] Calculation of net present value should take into consideration all contractual aspects, including maturity, grace period, payment schedule, fees and management costs.

[3] For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs.

H. Public Sector Contracts Signed by Single Tender

Definition

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

Reporting requirements

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

III. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

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

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

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

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investments Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts;
- The provisional balance of the Treasury accounts; and
- Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary

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

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

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

26. The government will transmit to Fund staff :

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

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

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

SENEGAL

Joint IMF/IDA Debt Sustainability Analysis

Prepared by the Staffs of the International Monetary Fund and the
International Development Association

Approved by Roger Nord and Thomas Dorsey (IMF)
and Jan Walliser and Sudarshan Gooptu (World Bank)

November 12, 2010

Senegal remains at low risk of debt distress.[1,2] *This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from May 7, 2010 to integrate the authorities' intention to temporarily increase infrastructure investment by external borrowing on nonconcessional terms, in line with the Fund's revised Debt Limits Policy. Under the baseline scenario, which includes US$500 million of nonconcessional borrowing over 2011–13 to finance new infrastructure projects (1.4 percent of GDP in 2011, 1.6 percent of GDP in 2012, and 0.2 percent of GDP in 2013), all the debt burden indicators remain well below their policy-dependent indicative thresholds. Still, debt vulnerabilities increase as suggested by standardized stress tests, where in some instances two debt burden indicators (PV of debt-to-GDP ratio and PV of debt-to-export ratio) temporarily and marginally exceed their thresholds. This calls for a cautious approach with such borrowing and stresses the importance of improving debt management. The inclusion of domestic debt does not alter the overall assessment of Senegal's risk of debt distress.*

[1] The DSA has been produced jointly by the staffs of the International Monetary Fund and the World Bank, in consultation with the Senegalese authorities. The fiscal year for Senegal is January–December.

[2] The DSA presented in this document is based on the standard low-income countries (LIC) DSA framework. See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04) and "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief" (8/11/06).

I. BACKGROUND

1. **Most of Senegal's external debt is concessional.** About 60 percent of end-2009 external debt was owed to multilateral institutions (especially the World Bank, the IMF, and AfDB). Major bilateral creditors include France, Kuwait, Spain, China, and India.[3]

2. **In December 2009, Senegal issued its first Euro Bond** (see text table). The US$200 million bond has a maturity of 5 years, and a coupon of 8.75 percent, but was priced to yield 9.25 percent. The proceeds of the issuance helped finance the Dakar-Diamniadio toll road.

Total External Debt, Central Government

	Percent of GDP, as of end of year				% of total
	2006	2007	2008	2009	2009
Total	17.7	17.9	19.7	27.0	100.0
Multilateral creditors	10.0	11.3	12.0	16.2	60.0
IDA/IBRD	6.0	6.6	7.0	8.0	29.6
AFDB/AfDF	1.0	1.2	1.5	1.7	6.2
IMF	0.2	0.2	0.5	2.7	10.0
OFID/BADEA/IDB	1.5	1.8	1.7	2.3	8.4
EBI	0.2	0.2	0.2	0.2	0.6
Others	1.2	1.2	1.2	1.3	5.0
Bilateral creditos	7.6	6.5	7.6	9.3	34.4
OECD countries	1.7	1.1	2.2	3.2	11.7
Arab Countries	4.7	4.3	4.2	4.2	15.6
Others	1.1	1.1	1.2	1.9	7.2
Commercial creditos	0.1	0.1	0.0	1.5	5.6
Euro Bond	0.0	0.0	0.0	1.5	5.5
Others	0.1	0.1	0.0	0.0	0.1
Memorandum Item					
Nominal GDP, billions of CFA	4893.4	5408.3	5950.1	6023.2	

Source : Authorities and Fund Staff

3. **Domestic public debt is low.** At end 2009, domestic debt reached 8 percent of GDP, or one-fourth of total debt.[4] This debt is denominated in local currency and mostly held by WAEMU banks. In 2009, net domestic debt issuance reached about 2.5 percent of GDP.

[3] Senegal reached its completion under the HIPC Initiative in 2004. Only three creditors have so far not provided HIPC debt relief: the Saudi Fund for Development, Oman, and Abu Dhabi.

4. **Private sector exposure also appears relatively limited**. Private external debt was estimated at 20 percent of GDP at end-2009, limiting concerns about potential fiscal contingent liabilities stemming from private debt.

II. Underlying Assumptions

5. **The macroeconomic framework rests on the implementation of sound macroeconomic and structural policies** (Box 1).

- Growth is projected to accelerate over the next few years, as the effects of the international economic and financial crisis dissipate and the authorities continue their structural reforms aimed at raising growth. In particular, over 2011–13, the baseline includes the direct impact of new large infrastructure projects currently considered by the authorities (extension of the highway to the new Blaise-Diagne airport, Mbour, and Thies).

- Over the long run, real GDP growth is projected to exceed 5 percent. Between 1995 (after the devaluation) and 2007 (before the food, fuel and financial crisis), real GDP growth averaged about 4.5 percent. The long-run projections assume that Senegal reduces constraints to growth through continued structural reforms, including in the business climate, the energy and financial sectors, as well as labor markets. The baseline projection also assumes successful completion of Senegal's ongoing infrastructure program (including the Dakar-Diamniadio highway, port, and airport). However, the baseline does not explicitly model the possible impact on long-run real GDP growth of new large infrastructure projects.

- FDI (net) is expected to rebound slowly after the impact of the financial crisis subsides. It is expected to pick up, as economic prospects improve and uncertainty is reduced, to average slightly more than 2.5 percent of GDP in the long term.

- The overall fiscal deficit is expected to remain sizeable in the short term, as large infrastructure projects are implemented. Fiscal consolidation is expected to start in the medium term in order to safeguard debt sustainability. While most of Senegal's public financing needs are projected to be filled through external concessional borrowing, nonconcessional borrowing is expected to finance the large infrastructure projects in the short term.

[4] Domestic debt includes debt issued in the WAEMU financial market.

Box 1. Macroeconomic Assumptions for 2010–30

Real GDP growth: Real GDP growth is expected to pick up once the effect of the global economic and financial crisis subsides. In particular, growth is expected to increase from 2.2 percent in 2009, to an average of 4.2 percent during 2010–11, 4.8 percent during 2012–15, and over 5.25 percent for the long term.

Inflation: Inflation is expected to stabilize at about 2 percent.

Current account deficit (excluding interest payments): the current account deficit is expected to deteriorate slightly over the short term reflecting higher imports associated with the infrastructure projects. The current account deficit excluding interest payments is expected to stabilize at around 7.6 percent by the end of the projection period, as the growth of exports overtakes that of imports. Remittances are expected to grow slowly over the medium term after a stronger-than-expected performance in 2009–10 (despite the crisis).

Fiscal deficit: large infrastructure spending is expected to lead to significant fiscal deficits (excluding grants) over the medium term (7.1 percent of GDP in 2010, 8.1 percent in 2011, 7.6 percent in 2012). Thereafter, the overall deficit gradually declines as infrastructure spending returns to a more normal level, public expenditure management—a reform focus under the program supported by the IMF Policy Support Instrument and the Bank's budget support operations (PFSC and PRSCs)—continues to be improved, and revenues increase through further efficiency gains in tax administration and tax reform.

Financing: external nonconcessional borrowing is assumed to finance the infrastructure projects during 2011–2013.[5] Moreover, in addition to the amortization of the 2009 Euro Bond (in 2014), additional external nonconcessional borrowing is assumed to amount to 1 percent of GDP annually for 2014–2030. Overall access to concessional resources is expected to decline as Senegal's development improves, leading to a decline in the grant element from 27.1 percent in 2015 to 21.6 percent by the end of the projection period.

Public domestic borrowing: domestic financing is expected to be less than a quarter of the total public financing needs over the long term and claims on the government are expected to be largely held by commercial banks.

[5] In addition, Senegal is also considering contracting in 2011 a maximum of CFAF30 billion in nonconcessional loans with a grant element of between 15 percent and 35 percent. This financing would not increase the deficit, but would be used for example in the event of an unexpected shortfall in concessional financing or to substitute for domestic financing. Given the relatively small amount, this is not expected to change the outcome of the DSA. For example, a loan of CFAF 30 billion with a grant element of 25 percent would increase the PV of debt-to-GDP by only 0.3 percent of GDP in 2011.

6. **Compared to the May 2010 DSA,[6] the macroeconomic assumptions have been revised to reflect more updated information, including the short-term impact of large infrastructure projects.** Notable changes since the last DSA include

- Additional infrastructure spending (extension of the toll road to the new Blaise-Diagne airport, Mbour, and Thies) is expected to amount to 1.4 percent of GDP in 2011, 1.6 percent of GDP in 2012, and 0.2 percent of GDP in 2013. This amounts to approximately US$500 million over the program period.[7, 8]

Evolution of selected macroeconomic indicators

	2009	2010	2011	2012	2013
Real GDP growth					
Previous DSA	1.5	3.4	4.1	4.5	4.7
Current DSA	2.2	4.0	4.4	4.7	4.8
Primary fiscal deficit (percent of GDP)					
Previous DSA	4.7	3.7	3.4	3.0	3.0
Current DSA	4.1	3.7	4.7	3.9	2.5
Overall fiscal deficit (percent of GDP)					
Previous DSA	8.1	6.9	6.5	6.2	6.2
Current DSA	7.9	7.1	8.1	7.6	6.2
Current account deficit (percent of GDP)					
Previous DSA	8.7	8.7	9.0	9.1	9.2
Current DSA	7.7	8.2	9.0	9.5	9.1

- Following upward revisions of official estimates for 2008 and 2009 and stronger activity indicators, real GDP growth has been revised for 2010.

- For 2011–13, real GDP growth was revised upward, reflecting the impact of large infrastructure spending. Long-term real GDP growth remains unchanged at 5.25 percent compared to the previous DSA.

- The primary and overall fiscal deficit has been revised upward for 2011–12 to reflect the impact of the new infrastructure projects.

- The current account deficit has been revised downward in 2009–10, owing to an upward revision to remittances. However, despite higher remittances for 2011–13, the

[6] See IMF Country Report No. 10/165, June 2010.

[7] The infrastructure projects are expected to be financed through external nonconcessional borrowing (interest rate of 8 percent, 7-year maturity, and 6-year grace period). The terms and conditions of the new external nonconcessional borrowing are expected to be better than the ones for the 2009 Euro Bond because of more favorable market conditions.

[8] Delays in the implementation of the projects could impact the timing of government spending.

current account deficit is roughly unchanged compared to the previous DSA, reflecting higher imports related to the infrastructure projects.

III. External DSA

7. **External PPG debt burden indicators under the baseline scenario remain well below their policy-dependent thresholds** (Figure 1, Table 1a).[9,10] While large external nonconcessional borrowing puts upward pressure on debt burden indicators based on the PV of PPG external debt, these indicators never breach their respective thresholds. The large spikes in the debt service ratios reflect the amortization of the Euro Bond (in 2014), and the repayment of the nonconcessional financing associated with the new infrastructure projects. While the debt service indicators do not breach their thresholds, the large spikes highlight the need for the authorities to improve debt management in order to minimize rollover risks.

8. **Stress tests do not reveal serious vulnerabilities for external public debt** (Table 1b). Two debt burden indicators (PV of debt-to-GDP and PV of debt-to-exports) breach their thresholds under a number of standardized stress tests, but these breaches are marginal and temporary. The largest breach occurs under the exports shock, when the PV of external PPG debt-to-exports reaches 158 percent, compared to a threshold of 150 percent. There are also similar (but slightly smaller) breaches under the combination shock for the PV of debt-to-exports ratio. Small breaches are also evident in the second half of the projection period under the less concessional financing scenario (the interest rate on new external PPG borrowing is 200 basis points higher than under the baseline) for the PV of debt-to-GDP and the PV of debt-to-exports ratios. These shocks highlight the need for Senegal to diversify its export base as well as seek financing consistent with debt sustainability.

IV. Public DSA

9. **Indicators of overall public debt (external plus domestic debt) and debt service follow a similar pattern to those for external public debt alone** (Table 2a and Figure 2). While more elevated than under the external DSA, the public debt burden indicators do not suggest increased concerns for debt sustainability.

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[9] The indicative external debt burden thresholds for Senegal are shown in Figure 1. They are based on Senegal's classification as a "medium" performer given its (three-year average) score of 3.67 on the World Bank's Country Policy and Institutional Assessment index (CPIA). The CPIA measures the quality of policies and institutions; weak performers score below 3.25, strong performers above 3.75.

[10] Large residuals in Table 1a can largely be explained by capital grants. The evolution of the external debt-to-GDP ratio is explained by the contribution of the current account (excluding interest), net FDI, and the endogenous debt dynamic. However, in addition to net FDI, capital grants are also a source of non-debt creating flows.

10. **Public debt sustainability hinges on containing the fiscal deficit in the medium and long term** (Table 2b). If the fiscal balance were to remain at its 2010 level, the debt burden indicators would appear to be on an upward trend, suggesting that the debt situation is unsustainable. This indicates the importance of fiscal consolidation once the impact of the crisis subsides. It also stresses the need for prioritization of government spending if additional infrastructure needs were to emerge.

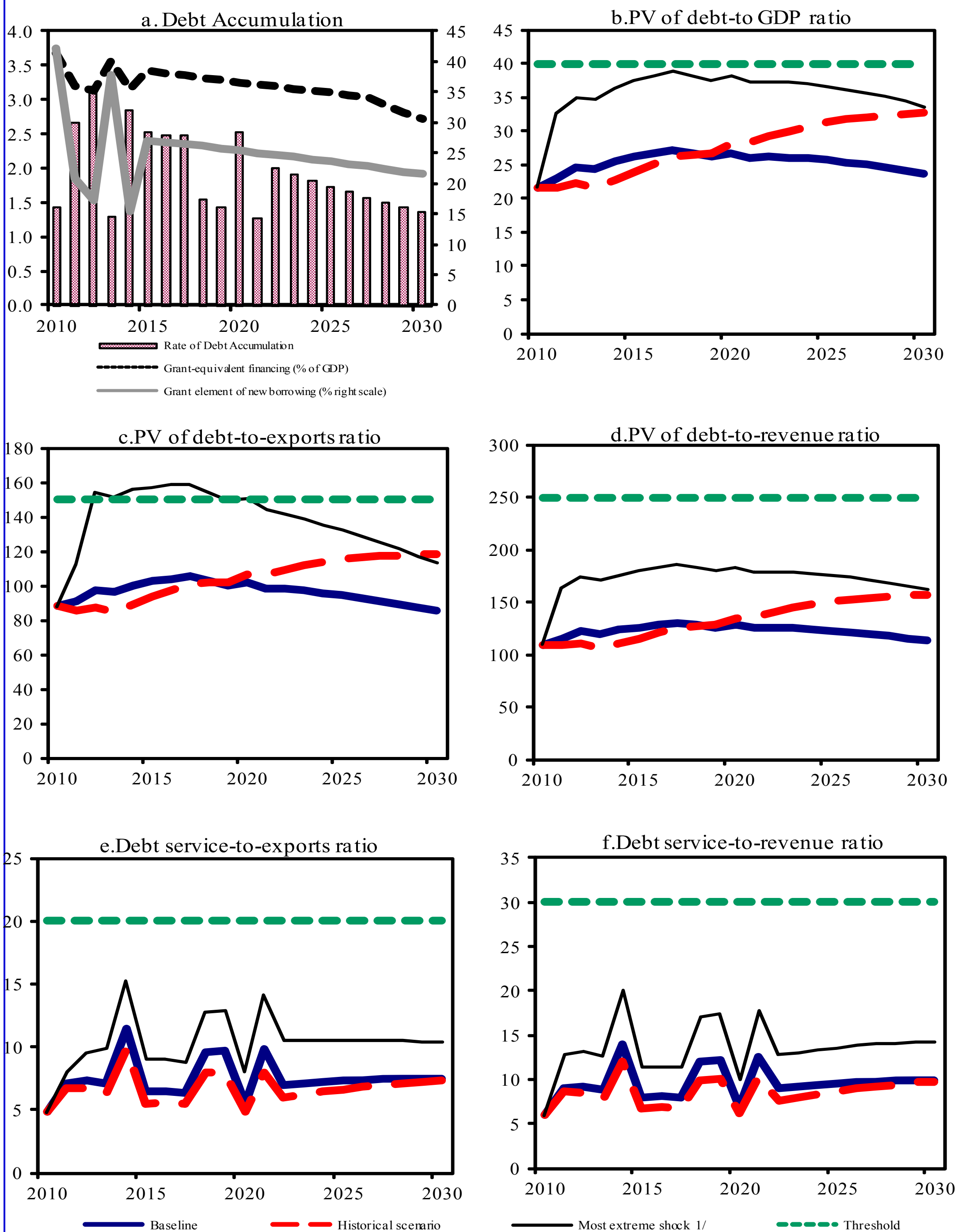
11. **The public debt position is also vulnerable to shocks to real GDP growth.** This indicates a need for the authorities to continue pursuing their goal of raising potential output growth. In that respect, the new infrastructure projects may help mitigate concerns over long-term potential output growth.

V. Conclusion

12. **Senegal's external debt burden is subject to a low risk of debt distress.** This occurs despite the explicit assumption of large nonconcessional borrowing in order to finance new infrastructure projects. The DSA suggests that external nonconcessional borrowing by Senegal of up to US$500 million (over the program period), would be consistent with the IMF's debt limit policy and the World Bank nonconcessional borrowing policy because Senegal remains a low risk of debt distress despite the nonconcessional borrowing. The external DSA highlights the need for Senegal to diversify its export base and improve its debt management capacity in order to minimize rollover risks, and seek better financing terms. Adding domestic debt, while raising the debt burden indicators, does not change the overall risk assessment, but indicates the need for fiscal consolidation once the impact of the crisis subsides and the infrastructure projects are implemented.

13. **The authorities agree that there is some scope for nonconcessional external borrowing**. The authorities also agree that Senegal's risk of external debt distress is low.

Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	0 Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**34.1**	**37.4**	**47.3**			**53.5**	**55.4**	**57.2**	**57.5**	**58.9**	**60.1**		**61.1**	**55.8**	
o/w public and publicly guaranteed (PPG)	17.9	19.7	27.0			31.6	33.1	34.9	35.0	36.3	37.4		38.3	33.2	
Change in external debt	2.0	3.2	10.0			6.2	1.9	1.9	0.3	1.5	1.2		0.5	-0.8	
Identified net debt-creating flows	3.9	7.0	7.0			4.4	4.9	5.1	4.3	4.1	3.3		3.0	2.7	
Non-interest current account deficit	**11.4**	**13.9**	**7.3**	**7.6**	**3.0**	**7.6**	**8.3**	**8.7**	**8.3**	**8.2**	**7.9**		**7.7**	**7.5**	7.6
Deficit in balance of goods and services	22.4	26.5	20.0			19.6	19.5	19.4	18.4	18.1	17.6		17.4	17.0	
Exports	25.5	26.3	24.1			24.5	25.2	25.3	25.3	25.4	25.6		26.4	27.7	
Imports	47.8	52.8	44.1			44.1	44.7	44.7	43.7	43.5	43.2		43.7	44.7	
Net current transfers (negative = inflow)	-11.4	-12.7	-12.6	-8.6	2.8	-12.0	-11.3	-10.7	-10.1	-10.1	-9.8		-9.7	-9.5	-9.7
o/w official	-1.0	-0.5	-0.7			-0.5	-0.4	-0.5	-0.5	-0.5	-0.5		-0.6	-0.7	
Other current account flows (negative = net inflow)	0.4	0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.0	
Net FDI (negative = inflow)	**-2.4**	**-2.0**	**-2.3**	**-1.4**	**0.8**	**-1.8**	**-1.8**	**-1.9**	**-2.2**	**-2.3**	**-2.6**		**-2.6**	**-2.6**	-2.6
Endogenous debt dynamics 2/	**-5.1**	**-4.9**	**2.0**			**-1.4**	**-1.6**	**-1.7**	**-1.9**	**-1.8**	**-2.0**		**-2.1**	**-2.2**	
Contribution from nominal interest rate	0.4	0.4	0.4			0.5	0.7	0.7	0.7	0.9	0.8		0.8	0.7	
Contribution from real GDP growth	-1.3	-0.9	-0.9			-1.9	-2.3	-2.4	-2.6	-2.6	-2.8		-2.9	-2.9	
Contribution from price and exchange rate changes	-4.2	-4.3	2.5			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-1.9**	**-3.8**	**2.9**			**1.7**	**-3.0**	**-3.3**	**-4.0**	**-2.6**	**-2.2**		**-2.5**	**-3.5**	
o/w exceptional financing	-0.4	-1.9	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	39.0			43.5	45.2	46.9	46.8	48.1	49.0		49.6	46.2	
In percent of exports	...	...	162.0			177.2	179.5	185.5	184.7	189.1	191.2		187.8	166.7	
PV of PPG external debt	**...**	**...**	**18.7**			**21.6**	**22.9**	**24.6**	**24.3**	**25.5**	**26.2**		**26.8**	**23.6**	
In percent of exports	**...**	**...**	**77.6**			**88.0**	**91.0**	**97.2**	**96.0**	**100.2**	**102.4**		**101.4**	**85.1**	
In percent of government revenues	**...**	**...**	**100.4**			**109.5**	**115.3**	**122.0**	**119.5**	**123.7**	**125.9**		**128.5**	**113.1**	
Debt service-to-exports ratio (in percent)	**12.2**	**14.5**	**18.2**			**18.0**	**19.2**	**19.3**	**18.7**	**22.4**	**17.1**		**15.8**	**17.3**	
PPG debt service-to-exports ratio (in percent)	**5.7**	**4.3**	**5.0**			**4.8**	**7.1**	**7.4**	**7.1**	**11.4**	**6.5**		**5.5**	**7.5**	
PPG debt service-to-revenue ratio (in percent)	**6.9**	**5.9**	**6.5**			**6.0**	**9.0**	**9.3**	**8.8**	**14.1**	**8.0**		**7.0**	**10.0**	
Total gross financing need (Billions of U.S. dollars)	1.4	2.1	1.2			1.3	1.5	1.6	1.6	1.8	1.7		2.3	5.0	
Non-interest current account deficit that stabilizes debt ratio	9.4	10.7	-2.6			1.5	6.4	6.9	8.1	6.7	6.7		7.2	8.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.0	3.2	2.2	3.9	1.9	4.0	4.4	4.7	4.8	4.9	5.0	4.6	5.2	5.6	5.3
GDP deflator in US dollar terms (change in percent)	14.9	14.4	-6.3	5.8	10.0	-4.8	0.2	1.5	1.5	1.6	1.7	0.3	2.2	2.3	2.2
Effective interest rate (percent) 5/	1.6	1.3	1.0	1.4	0.3	1.1	1.3	1.4	1.3	1.6	1.4	1.4	1.5	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	19.9	22.1	-12.3	8.3	12.5	0.8	7.3	6.7	6.5	7.0	7.6	6.0	8.2	8.3	8.2
Growth of imports of G&S (US dollar terms, in percent)	33.9	30.4	-20.1	13.2	16.4	-0.9	6.0	6.2	4.1	6.1	5.9	4.6	7.7	8.1	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	42.1	20.7	17.2	37.9	15.5	27.1	26.7	25.4	21.6	24.3
Government revenues (excluding grants, in percent of GDP)	21.1	19.4	18.6			19.7	19.9	20.2	20.3	20.6	20.8		20.8	20.8	20.8
Aid flows (in Billions of US dollars) 7/	0.6	0.9	0.8			0.5	0.5	0.6	0.6	0.7	0.7		0.9	1.7	
o/w Grants	0.3	0.3	0.4			0.3	0.3	0.3	0.3	0.4	0.4		0.6	1.0	
o/w Concessional loans	0.3	0.5	0.4			0.2	0.2	0.2	0.3	0.3	0.3		0.4	0.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.7	3.2	3.1	3.6	3.1	3.4		3.3	2.7	3.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			67.0	47.7	43.8	63.1	40.3	52.8		53.5	52.6	53.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	11.3	13.3	12.8			12.7	13.2	14.1	15.0	16.0	17.0		24.3	51.1	
Nominal dollar GDP growth	20.6	18.1	-4.2			-1.0	4.6	6.2	6.4	6.6	6.8	4.9	7.5	8.0	7.6
PV of PPG external debt (in Billions of US dollars)			2.5			2.7	3.0	3.4	3.6	4.1	4.5		6.5	12.0	
(PVt-PVt-1)/GDPt-1 (in percent)						1.4	2.7	3.2	1.3	2.9	2.5	2.3	2.5	1.4	1.8
Gross workers' remittances (Billions of US dollars)	1.4	1.9	1.8			1.7	1.6	1.6	1.6	1.7	1.8		2.5	5.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.5			19.1	20.4	22.0	21.9	23.0	23.8		24.2	21.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	49.5			57.3	61.0	66.5	67.0	70.4	72.8		72.7	61.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			3.1	4.8	5.0	5.0	8.0	4.6		3.9	5.4	

Sources: Country authorities; and staff estimates and projections.

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

Table 1b.Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	22	23	25	24	25	26	**27**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	22	22	22	22	23	24	**28**	33
A2. New public sector loans on less favorable terms in 2010-2030 2	22	23	26	28	29	32	**38**	42
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	22	23	26	25	27	27	**28**	25
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	22	25	31	31	32	32	**32**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	22	24	27	27	28	29	**30**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	22	29	35	35	36	36	**35**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	22	28	37	36	37	38	**36**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	22	33	35	35	36	37	**38**	34
PV of debt-to-exports ratio								
Baseline	88	91	97	96	100	102	**101**	85
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	88	86	88	85	89	93	**106**	118
A2. New public sector loans on less favorable terms in 2010-2030 2	88	92	104	110	116	125	**144**	152
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	88	91	97	96	100	102	**101**	85
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	88	112	154	151	156	157	**150**	114
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	88	91	97	96	100	102	**101**	85
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	88	114	140	138	141	141	**132**	95
B5. Combination of B1-B4 using one-half standard deviation shocks	88	118	155	153	156	156	**146**	104
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	88	91	97	96	100	102	**101**	85
PV of debt-to-revenue ratio								
Baseline	109	115	122	120	124	126	**128**	113
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	109	109	110	106	110	115	**135**	157
A2. New public sector loans on less favorable terms in 2010-2030 2	109	117	131	137	143	154	**183**	202
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	109	118	128	125	130	132	**135**	119
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	109	127	155	151	154	155	**152**	121
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	109	120	135	132	137	139	**142**	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	109	144	176	172	174	174	**168**	126
B5. Combination of B1-B4 using one-half standard deviation shocks	109	143	183	178	180	180	**174**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	109	164	174	170	176	179	**183**	161

Table 1b.Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	5	7	7	7	11	6	**6**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	5	7	7	6	10	5	**5**	7
A2. New public sector loans on less favorable terms in 2010-2030 2	5	7	7	7	11	7	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	7	7	7	11	6	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	5	8	10	10	15	9	**8**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	7	7	7	11	6	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	5	7	8	8	13	8	**7**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	7	9	9	14	8	**8**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	5	7	7	7	11	6	**6**	7

Debt service-to-revenue ratio

Baseline	6	9	9	9	14	8	**7**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	6	9	8	8	12	7	**6**	10
A2. New public sector loans on less favorable terms in 2010-2030 2	6	9	8	9	14	8	**10**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	6	9	10	9	15	8	**7**	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	6	9	10	10	15	9	**8**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	6	9	10	10	16	9	**8**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	6	9	10	10	16	9	**9**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	6	9	10	11	16	10	**10**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	6	13	13	13	20	11	**10**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitl an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	24.5	25.0	34.6			40.0	43.4	45.9	46.8	47.5	47.9		47.7	44.2	
o/w foreign-currency denominated	17.9	19.7	27.0			31.6	33.1	34.9	35.0	36.3	37.4		38.3	33.2	
Change in public sector debt	1.5	0.5	9.6			5.4	3.4	2.5	0.9	0.6	0.5		-0.2	-0.3	
Identified debt-creating flows	-1.8	3.2	3.1			6.4	3.5	2.7	1.1	0.8	0.6		0.0	-0.2	
Primary deficit	3.3	4.2	4.3	2.0	2.3	3.9	4.7	3.9	2.5	2.2	2.3	3.3	2.0	1.7	1.9
Revenue and grants	23.6	21.7	21.7			22.1	22.2	22.4	22.6	22.9	23.1		23.1	22.9	
of which: grants	2.6	2.3	3.0			2.4	2.3	2.3	2.3	2.3	2.3		2.3	2.0	
Primary (noninterest) expenditure	26.9	25.9	25.9			26.0	26.8	26.4	25.2	25.1	25.4		25.1	24.6	
Automatic debt dynamics	-3.1	-0.4	-0.9			2.5	-1.2	-1.3	-1.5	-1.5	-1.6		-1.9	-2.0	
Contribution from interest rate/growth differential	-1.5	-1.6	0.5			-1.0	-1.3	-1.4	-1.6	-1.6	-1.8		-1.9	-2.0	
of which: contribution from average real interest rate	-0.5	-0.8	1.0			0.4	0.4	0.5	0.5	0.6	0.5		0.4	0.4	
of which: contribution from real GDP growth	-1.1	-0.8	-0.5			-1.3	-1.7	-1.9	-2.1	-2.2	-2.3		-2.4	-2.4	
Contribution from real exchange rate depreciation	-1.5	1.2	-1.3			3.5	0.2	0.2	0.2	0.2	0.2		...	...	
Other identified debt-creating flows	-2.0	-0.6	-0.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.7	-0.3	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.4	-0.3	-0.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.3	-2.7	6.5			-1.0	-0.1	-0.2	-0.1	-0.1	-0.2		-0.2	0.0	
Other Sustainability Indicators															
PV of public sector debt	6.6	5.3	26.3			30.0	33.2	35.6	36.1	36.6	36.8		36.1	34.5	
o/w foreign-currency denominated	0.0	0.0	18.7			21.6	22.9	24.6	24.3	25.5	26.2		26.8	23.6	
o/w external	...	...	18.7			21.6	22.9	24.6	24.3	25.5	26.2		26.8	23.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.0	7.8	8.0			7.6	8.7	10.2	9.4	10.6	9.1		8.2	8.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	27.8	24.3	121.6			136.0	149.9	158.7	159.7	159.9	159.2		156.2	150.9	
PV of public sector debt-to-revenue ratio (in percent)	31.2	27.2	141.3			152.2	167.1	176.8	177.6	177.7	176.7		173.4	165.7	
o/w external 3/	…	…	100.4			109.5	115.3	122.0	119.5	123.7	125.9		128.5	113.1	
Debt service-to-revenue and grants ratio (in percent) 4/	6.2	8.2	9.1			8.5	12.1	14.2	14.3	20.0	15.0		13.8	17.6	
Debt service-to-revenue ratio (in percent) 4/	7.0	9.2	10.6			9.5	13.5	15.8	15.9	22.2	16.7		15.3	19.3	
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	3.6	-5.3			-1.5	1.3	1.4	1.6	1.6	1.8		2.1	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.0	3.2	2.2	3.9	1.9	4.0	4.4	4.7	4.8	4.9	5.0	4.6	5.2	5.6	5.3
Average nominal interest rate on forex debt (in percent)	2.9	2.5	2.0	1.9	0.5	2.0	2.2	2.4	2.2	2.6	2.3	2.3	2.3	2.3	2.2
Average real interest rate on domestic debt (in percent)	-1.3	-2.2	8.1	0.9	3.0	2.9	4.1	4.1	4.1	3.7	3.7	3.8	3.7	4.0	3.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.4	7.0	-6.7	-3.2	10.6	13.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.3	6.6	-0.9	2.6	2.3	1.4	2.0	2.0	2.0	2.1	2.1	1.9	2.2	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	42.1	20.7	17.2	37.9	15.5	27.1	26.7	25.4	21.6	...

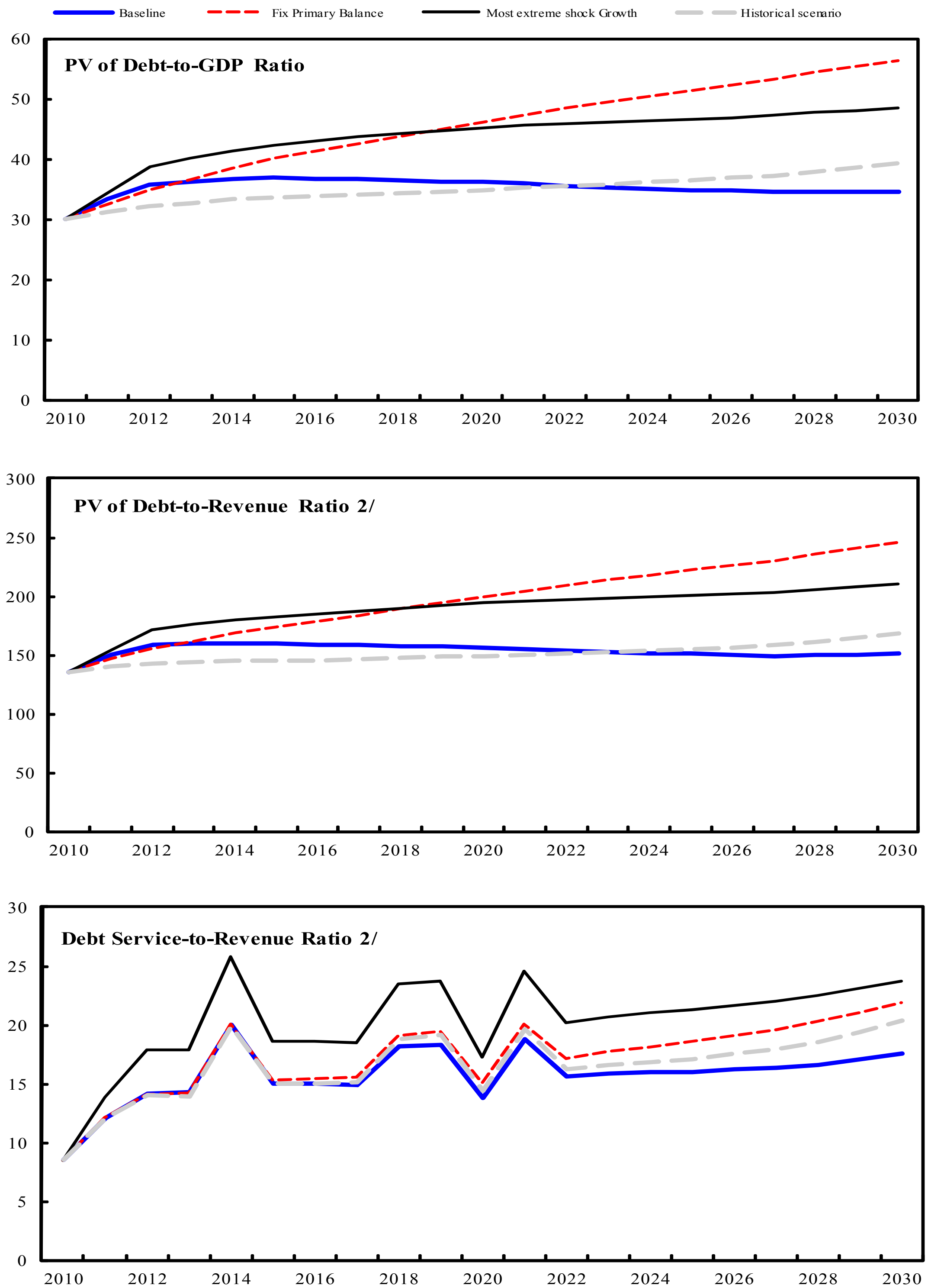
Sources: Country authorities; and staff estimates and projections.
1/ The public sector refers to the central governemnt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt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

Table 2b.Senegal: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	30	33	36	36	37	37	36	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	31	32	33	33	34	35	39
A2. Primary balance is unchanged from 2010	30	33	35	37	39	40	46	56
A3. Permanently lower GDP growth 1/	30	33	36	37	38	39	41	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	30	34	39	40	41	42	45	48
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	30	33	36	36	37	37	36	35
B3. Combination of B1-B2 using one half standard deviation shocks	30	32	35	36	37	38	39	42
B4. One-time 30 percent real depreciation in 2011	30	42	44	44	44	43	41	38
B5. 10 percent of GDP increase in other debt-creating flows in 2011	30	42	44	44	45	44	43	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	136	150	159	160	160	159	156	151
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	136	140	143	144	145	145	149	168
A2. Primary balance is unchanged from 2010	136	147	156	162	168	173	200	246
A3. Permanently lower GDP growth 1/	136	151	161	163	165	166	177	216
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	136	155	171	176	180	182	194	211
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	136	149	159	160	160	159	156	151
B3. Combination of B1-B2 using one half standard deviation shocks	136	146	154	157	160	162	170	182
B4. One-time 30 percent real depreciation in 2011	136	190	196	193	191	187	176	167
B5. 10 percent of GDP increase in other debt-creating flows in 2011	136	189	196	196	194	192	184	168
Debt Service-to-Revenue Ratio 2/								
Baseline	8	12	14	14	20	15	14	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	12	14	14	20	15	14	20
A2. Primary balance is unchanged from 2010	8	12	14	14	20	15	15	22
A3. Permanently lower GDP growth 1/	8	12	14	14	20	15	15	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	8	12	15	15	21	16	15	21
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	8	12	14	14	20	15	14	18
B3. Combination of B1-B2 using one half standard deviation shocks	8	12	14	14	20	15	14	19
B4. One-time 30 percent real depreciation in 2011	8	14	18	18	26	19	17	24
B5. 10 percent of GDP increase in other debt-creating flows in 2011	8	12	15	16	21	16	15	19

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure 2.Senegal: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SENEGAL

Senegal—Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument—Informational Annex

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

Approved by Roger Nord and Thomas Dorsey

November 12, 2010

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR 138.33 million (85.5 percent of quota) at end-September 2010.
- **JMAP Implementation.** Describes Bank-Fund collaboration.
- **Statistical Issues.** Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data particularly on national accounts, production, and social indicators.

SENEGAL: RELATIONS WITH THE FUND
(As of September 30, 2010)

I. Membership Status: Joined: August 31, 1962; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	161.80	100.00
Fund holdings of currency	160.04	98.91
Reserve Position	1.77	1.09

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	154.80	100.00
Holdings	130.33	84.19

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	121.35	75.00
PRGF Arrangements	16.98	10.50

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Dec 19, 2008	Jun 18, 2010	121.35	121.35
PRGF	Apr 28, 2003	Apr 27, 2006	24.27	24.27
PRGF	Apr 20, 1998	Apr 19, 2002	107.01	96.47

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal		2.08	3.47	3.47	11.56
Charges/Interest	0.02	0.07	0.41	0.40	0.39
Total	0.02	2.15	3.88	3.87	11.94

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	June 2000
Assistance committed by all creditors (US$ Million) [1]	488.30
Of which: IMF assistance (US$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	April 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.80
Interim assistance	14.31
Completion point balance	19.49
Additional disbursement of interest income [2]	4.60
Total disbursements	38.40

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) [3]	100.32
Financed by: MDRI Trust	94.76
Remaining HIPC resources	5.56

II. Debt Relief by Facility (SDR Million)

	EligibleDebt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	100.32	100.32

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence the two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

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

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened. The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The ongoing implementation of the Institutional Reform of the WAMU and the BCEAO should help correct that situation. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

X. Exchange System:

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

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

Aspects of the exchange system were also discussed in the February 2010 report on economic developments and regional policy issues of the WAEMU.

XI. Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on May 24, 2010 (Country Report No.10/165). In concluding the 2010 Article IV consultation, Executive Directors welcomed the broadly satisfactory implementation of the Senegalese authorities' economic program supported under the PSI and the ESF. While Senegal's risk of debt distress is low, Directors underscored the need to gradually withdraw the temporary fiscal stimulus and reduce the budget deficit to a level consistent with debt sustainability. They welcomed the authorities' plans to further strengthen revenue collection and stressed that spending pressures had to be contained to preserve macroeconomic stability and debt sustainability and meet the WAEMU convergence criteria, while safeguarding priority spending. Directors supported efforts to reform public financial management and emphasized the need to maintain the reform momentum. They encouraged the authorities to improve their liquidity and debt management to complement the increasing integrity of their budget framework and expressed concern about program slippages that indicate that closer attention needs to be paid to spending procedures and control mechanism. Directors saw room for further strengthening the authorities' investment planning and evaluation with a view to ensuring high productivity of government spending. They underscored the need to overcome the weak export performance and to improve competitiveness through a more supportive business climate and better governance that would stimulate private-sector growth. Directors underlined that other complementary policies need to be put in place to regain Senegal's growth momentum and return to previous growth trajectories. Sustained efforts are required to enhance the financial sector's contribution to the economy. Directors also encouraged the authorities to implement their energy sector reform plan to limit supply bottlenecks and fiscal risks.

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

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in June 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in the second half of 2007.

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

XIII. Technical Assistance:

A. AFRITAC West

Year	Area	Focus
2003	Debt management and financial markets	Upgrading of information systems; techniques of external debt management
	Microfinance	Initiate work with BCEAO and donors
2004	Public expenditure management	Workshop
	Debt management and financial markets	Evaluation of software for improving debt management; workshop on AFL/CFT
	Public expenditure management	Decentralization; evaluation of TA needs

Year	Area	Focus
	Debt management and financial markets	Assessing need for capacity improvement
2005	Macroeconomic statistics	Making fiscal data conform to WAEMU and other international norms
	Microfinance	Inspection and control; workshop on good governance; training of government supervisory personnel
2006	Customs administration	Software risks
	Tax administration	Reforms and TA needs
	Macroeconomic statistics	Evaluating implementation of prior TA and future needs
	National accounts	Work program for improvement and statistical action plan
	Microfinance	Supervision
2007	Customs administration	Risk analysis and control
	Tax administration	Modernization
	Debt management and financial markets	Assessing TA needs; regional workshop on external debt statistics
	Macroeconomic statistics	Public finance statistics
	National accounts	Institutional sectors and quarterly national accounts; regional workshop on government accounts
	Microfinance	Supervision
2008	Debt management and financial markets	DSA workshop
	National accounts	Institutional sector and quarterly national accounts
	Microfinance	Supervision and organization
2009	National accounts	Quarterly national accounts (QNA)
	Tax administration	Status of the reform and scope for further TA
	Debt management	Strengthening public debt management
	Microfinance	Strengthening microfinance supervision
	Macroeconomic and financial statistics	Enhancing production and dissemination of public finances statistics
2010	Debt management	Strengthening public debt management
	National accounts	Quarterly national accounts (QNA)
	Customs administration	Follow-up mission
	Tax administration	Tax administration modernization
	Customs administration	Follow-up mission

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	September 2001	Staff/consultant	Assessment of capacity to track poverty-reducing expenditures
	February 2004	Staff	Fiscal reporting
	November 2004	Staff	PSIA—Poverty and social impact analysis
	January 2005	Staff	ROSC
	January 2008	Staff	Public-Private Partnerships
	February 2008	Staff	PSIA─Poverty and Social Impact Analysis
	October 2008	Staff/AFRITAC	Public financial management
	April 2009	FAD Expert	Public financial management
	Nov. 2009	Staff/AFRITAC	Revenue administration
	January 2010	FAD Expert	Review of the expenditure chain
	February 2010	Staff/AFRITAC	Public financial management
	Jul./Aug. 2010	FAD Expert	PFM (Treasury Single Account and cash forecasts)
	October 2010	Staff/Expert/AFRITAC	Revenue administration
	Nov. 2010	Staff/Expert	Review of tax policy and tax expenditures
Monetary and Capital Markets	September 2006	Staff	Bank supervision and regulation
	September 2010	Staff	Needs assessment
Statistics	September 2001	Staff	ROSC assessment of data
	July 2002	AFRISTAT	Real sector statistics assessment under GDDS West Africa project
	August 2002	AFRISTAT	National accounts assistance under GDDS West Africa project.
	August 2002	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	December 2002	AFRISTAT	Continued assistance with national accounts and prices statistics under GDDS West Africa project
	February 2003	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.

Department	Date	Form	Purpose
	March 2006	Staff	Real sector statistics
	March 2006	Staff	Government finance statistics
	November 2008	Staff	SDDS assessment
	April 2009	Staff	Government finance statistics

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Ms. Valeria Fichera since September 2009.

XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS Inter-Governmental Action Group Against Money Laundering (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana**.** The report highlighted several areas of weaknesses in the AML/CFT system, confirmed by the score of 12 Non-Compliant and 16 Partially Compliant ratings out of the 40+9 FAF AML/CFT recommendations. GIABA's first follow up report on the implementation of the recommendations contained in the Mutual Evaluation (2009) mentions that Senegal's adoption of Uniform Law No. 2009-16 of 02 March 2009 against terrorist financing enables the country to broadly comply with all the Recommendations and special recommendations concerning the issue, including customer Due Diligence (especially as regards politically exposed persons (PEP). It also notes that legal provisions made by Senegal in order to prevent the abuse of new technologies, namely the adoption of Law No. 2008–11 of 25 January 2008 on cyber criminality, enable the country to adapt its criminal system and subsequent procedures to crimes related to new information and communication technologies. GIABA Secretariat concludes that Senegal deserves encouragement for its endeavour to reinforce its AML/CFT scheme and recommends, at this juncture, the maintenance of Senegal within a regular follow-up process, pending the results of measures taken and the adoption of new measures aimed at amending the above-mentioned scheme.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION
World Bank and International Monetary Fund Collaboration

(Update)

Title	**Products**	**Provisional timing of missions**	**Expected delivery date**
A. Mutual information on relevant work programs			
World Bank	Public Expenditure Review	Continuous	
International Monetary Fund	**IMF-supported program** First Review of PSI	March 2011	May 2011 (Board)
	Technical Assistance Revenue administration Tax policy review Public fin. management Treasury management Budget management Tax administration	 October 2010 November 2010 January 2011 January / March 2011 January 2011 March / April 2011	
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Updates on progress with PRSC (if implications for the IMF-supported program) Energy sector reform	...	...
Bank request to Fund (with summary justification)	...	...	...
C. Agreement on joint products and missions			
Joint products	DSA	September 2011	November 2011

STATISTICAL ISSUES

Senegal – Statistical Issues Appendix

As of November 10, 2010

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors.

National accounts: The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly. However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting member countries, including Senegal, with the improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Progress reported by the advisor includes: i) completion of national accounts for 1980–2004 with 1999 as the base year; ii) dissemination of the 1980–2003 series in hard copy and on the internet; iii) production of accounts by institutional sector (first series covers 2004 institutional sector accounts); and iv) production of national accounts in accordance with the dissemination schedule. The authorities plan to start production of quarterly national accounts in view of the country's intention to subscribe to the SDDS. The recent West AFRITAC missions have assisted with training to support compilation of the QNA and initiating their compilation for the period 1990-2007. The West AFRITAC and the authorities agreed on a detailed work program initially aimed at starting regular dissemination of the QNA in March 2010. A stock-taking mission took place in April 2010.

Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for electronic redissemination and publication in the 2007 *Government Finance Statistics Yearbook* were for fiscal year 2001. Higher frequency data are not provided for redissemination in *IFS*, but the ministry compiles and disseminates quarterly government financial operations tables (TOFE) in their own publications. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the last PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The proposed changes are now being implemented. They have improved the presentation of government financial operations and are the first step toward bringing the TOFE more in line with the extended WAEMU TOFE. Other steps will include implementing the WAEMU fiscal directives that are being revised. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook.*

Monetary and financial statistics: Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released (including to the IMF) by BCEAO headquarters. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. There has also been an improvement in the timeliness of reporting interest rate and main depository corporation data (central bank, commercial banks and postal checks center). An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003. In August 2006, as part of the authorities' continuing efforts to implement the statistical methodology recommended in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA test monetary data for June 2006 for all member countries using the Standardized Report Forms (SRF). In response to STA's comments, the BCEAO has provided a revised central bank report form (1SR) as well as test data on other depository corporations (2SR) for review by STA.	
External sector statistics: Balance of payments statistics are compiled by the Senegalese national agency of the BCEAO. With STA support over the past few years, several steps have been taken to address certain shortcomings, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modification and simplification of related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Nevertheless, further steps could be taken to enhance the quality and coverage of the balance of payments statistics. Although definitive balance of payments statistics can now be provided with a delay of less than one year, there are significant delays in reporting the data to STA.	
II. Data Standards and Quality	
The country has begun the process of regional harmonization of statistical methodologies within the framework of the WAEMU. It participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on September 10, 2001. In September 2006, the authorities expressed their commitment to work toward subscription to the Special Data Dissemination Standard (SDDS) and have appointed a national SDDS coordinator. The November 2008 SDDS assessment mission evaluated dissemination practices against SDDS requirements for coverage, periodicity and timeliness and, in cooperation with the authorities, developed an action plan to address identified gaps.	A Data ROSC was published on the IMF website on December 2, 2002.

Senegal: Table of Common Indicators Required for Surveillance

(As of October 15, 2010)

	Latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality Accuracy and reliability[9]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	8/2010	10/2010	M	M	M		
Reserve/Base Money	7/2010	10/2010	M	M	M	LO, LO, O, O	LO, O, O, LO
Broad Money	7/2010	10/2010	M	M	M		
Central Bank Balance Sheet	8/2010	10/2010	M	M	M		
Consolidated Balance Sheet of the Banking System	6/2009	9/2010	M	M	M		
Interest Rates[2]	8/2010	10/2010	M	M	M		
Consumer Price Index	9/2010	10/2010	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA				O, LNO, LO, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	8/2010	9/2010	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5/11]	2009	9/2010					
External Current Account Balance [10/11]	2009	9/2010	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services [10/11]	2009	9/2010	A	A	A		
GDP/GNP [10/11]	2009	9/2010	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt [11]	2009	9/2010	A	I	A		
International Investment Position [6/]	2008	4/2010	A	A	A		

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

Statement by Kossi Assimaidou, Executive Director for Senegal

December 3, 2010

1. Senegal's performance under the current PSI remains strong, translating into continuous major improvements in public finance management, fiscal transparency and governance, financial sector intermediation, and private sector development. Indeed, the authorities took necessary steps to meet all program quantitative assessment criteria and most structural benchmarks, albeit some with delay. The completion of the sixth review under the Policy Support Instrument (PSI) is therefore being recommended by staff.

2. Box 1 of the staff report provides a useful summary of the country's performance under the PSI. On the structural front, measures set as part of conditionality under the program were broadly implemented. On the quantitative front, following initial setbacks, substantial progress was made subsequently. Indeed, performance during the initial phases of program implementation was made difficult by a number of factors, key of which were the daunting policy challenges facing the country at the onset of the global energy and food price shocks. However, the authorities' strong commitment to the program was instrumental in keeping it on track and advancing its reform agenda amid a difficult domestic and external environment. At the same time, the country's macroeconomic fundamentals remained strong, reflecting continued macroeconomic stability, sustainable debt, and economic resilience.

3. In order to consolidate the achievements made under the current PSI, my Senegalese authorities are requesting a new PSI in support of their 2010-13 economic program. The new three-year PSI-supported program will continue to provide a framework for policies aimed notably at further strengthening fiscal and debt management, sustaining macroeconomic and financial stability, further improving public financial management, and promoting private sector development. In order to achieve these objectives, my Senegalese authorities are determined to advance their policy and reform agenda, as set forth in their MEFP.

Further Improving Revenue Mobilization and Public Financial Management

4. Further strengthening revenue mobilization remains one of the cornerstones of the authorities' reform agenda. In this context, a revenue-enhancing tax reform strategy will be prepared and submitted to the Council of Ministers by the end of the first quarter of 2011. Building on Fund technical assistance, this strategy will emphasize specific measures aimedat streamlining tax expenditures and further strengthening tax and customs administration, including rationalization of exemptions applicable to petroleum products, streamlining of the general tax code, and strengthening of capacities of tax collection agencies.

5. Under the current PSI, a comprehensive reform agenda was successfully implemented with the aim of strengthening public financial management (PFM). As a result, the authorities were able to cope with a number of impediments to smooth budget execution. Going forward, they plan to settle remaining extrabudgetary expenditure, if any, in the first half of next year, bringing to rest this legacy of past budget execution difficulties.

Furthermore, it is their intention to consolidate achievements in the area of PFM notably by implementing the reform program that was recently finalized in consultation with development partners, inspired by the PEFA exercise, and supported by Fund technical assistance. Finally, I would note that my authorities' reform agenda also features measures aimed at improving Treasury management, including the creation of a committee in charge of monitoring budget execution and the scheduled move toward a single Treasury account.

Sustaining Improvements in Fiscal Transparency

6. Efforts undertaken in recent years to ensure greater fiscal transparency will be pursued, notably with regard to the financing and implementation of the government's investment program. In particular, in line with established practice for the construction of the new airport, these will be reflected in the planned monthly publication of transactions related to the extension of the toll road which is one of the largest infrastructure projects underway. At the same time, in order to ensure full transparency in its implementation, my authorities will conduct and publish an audit of the use of the funds earmarked for this project. Furthermore, a number of other measures set as conditionality under the proposed PSI are also reflective of the authorities' strong attachment to transparency. These include a renewed commitment to limit the share of contracts awarded on a noncompetitive basis to 20 percent of all government contracts as well as their intention to prepare an action plan aimed at improving the realism of budgetary allocations for utility expenses borne by public entities.

Addressing Infrastructure Bottlenecks and Improving Debt Management

7. Despite the unprecedented efforts made by the authorities to upgrade the country'sinfrastructure, much remains yet to be done for it to play its key role in enhancingcompetitiveness and fostering economic activity. In recognition of this need, my authorities are determined to bring to completion the implementation of the infrastructure investment program. For its financing, preference will continue to be given to the mobilization of concessional resources. However, given the increasingly limited access to concessional resources and the magnitude of financing needs, recourse to nonconcessional financing will be necessary to carry out satisfactory implementation of the much-needed infrastructure projects. In this context, the authorities plan to mobilize additional resources to finance highly profitable projects. In particular, they plan to issue a second international bond to carry out the highway extension project. Early in the process of designing this project, they have kept the Fund staff regularly informed about their intention, profitability studies, and financing options and, going forward, they will keep the existing lines of communication open.

8. Going forward, care will continue to be taken to ensure that any recourse to nonconcessional financing will be consistent with the need to preserve debt sustainability. In this endeavor, implementation of the reform agenda of the new PSI in the area of debt management will be instrumental. In particular, the envisaged establishment of an entity in charge of managing public debt and market interventions will be a key step in this direction; so will the preparation of a medium-term debt management strategy and the decision to take

into account fiscal risks arising from debt operations in the authorities' debt sustainability analysis.

9. Planned efforts to improve management of public debt arising from the implementation of the authorities' investment program will be accompanied by steps to enhance the planning, evaluation and selection of infrastructure projects. At the same time, it is envisaged that an evaluation will be conducted systematically for projects undertaken in certain sectors (education, health, environment, and agriculture) when their cost exceeds a well-defined threshold. At the same time, efforts will be made to harmonize project evaluations across line ministries.

Pursuing the Reform of Energy and Financial Sectors

10. Sectoral reforms are expected to play a critical role in fostering private sector development. In particular, the reform of the energy sector is being advanced with a view to containing fiscal risks emanating from it. It builds on previous measures taken by the authorities in the program context that resulted in the significant reduction of energy subsidies from their peak levels achieved a few years ago at the onset of the recent oil price shock. Work is underway to finalize a restructuring plan for the energy sector that will build on a comprehensive financial and operational audit of the sector. In particular, this plan will define ways of improving performance of the electricity company, SENELEC, as well as its ability to fully meet its obligations vis-à-vis tax and customs authorities.

11. Financial sector reform will proceed according to a comprehensive action plan designed in consultation with concerned stakeholders. Key measures identified in the plan aim *inter alia* to promote leasing activities, develop banking intermediation, and increase private sector involvement in banks in which the government enjoys a majority ownership.

12. In light of Senegal's continued strong program and economic performance and the strong commitment of my Senegalese authorities to the reform process, I call on Directors to consider favorably the authorities' request for a new PSI arrangement. Directors' support for the cancellation of the current PSI upon approval of the new one would also be appreciated.

Press Release No. 10/469
FOR IMMEDIATE RELEASE
December 3, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Final Review Under PSI with Senegal and Approves New Three-Year PSI

The Executive Board of the International Monetary Fund (IMF) completed today the sixth and final review under Senegal's Policy Support Instrument (PSI) and approved a new three-year PSI. To this end, the Executive Board cancelled the current PSI, which was scheduled to expire on December 22, 2010. The IMF's framework for PSIs is designed for low-income countries that may not need financial assistance, but still seek IMF advice, monitoring, and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners (see Public Information Notice No. 05/145).

The authorities' program aims to lay the foundations for strong, sound, and sustainable growth, with a view to paving the way for Senegal to become an emerging market economy. Senegal's program will build on the progress made under the previous PSI-supported program with maintaining macroeconomic discipline and fostering economic growth.

Following the Executive Board's discussion of Senegal, Mr. John Lipsky, Deputy Managing Director and Acting Chair, stated:

"The Senegalese authorities are to be commended for the satisfactory implementation of their economic program under the Policy Support Instrument. Economic growth recovered in 2010 and is expected to strengthen further in 2011. Significant progress on the policy front has been made, and the authorities are committed to pursue further reforms to address the important challenges that remain.

"Policies under the successor PSI will focus on increasing economic growth and improving resilience to shocks to help Senegal meet its development and poverty reduction objectives. Macroeconomic stability will be maintained through sound fiscal policy. Measures to increase revenues and improve the quality of spending will help create fiscal space for more priority spending, including infrastructure investment. To accommodate the additional infrastructure spending, the fiscal deficit will be temporarily higher, but will need to be reduced in the medium term to maintain a low risk of debt distress.

"Key structural reforms under the program include consolidating gains in public financial management and strengthening public investment planning and debt management. To reap the full benefits of additional investment and unlock the economy's growth potential, the program also focuses on improving the business climate, supporting better governance, and promoting efficient energy and financial sectors. These reforms will help address key bottlenecks to growth and create a business-friendly environment conducive to private sector development," Mr Lipsky added.

ANNEX

Recent Economic Developments

Economic growth in Senegal was slowed in recent years by the food and fuel price shocks and the global financial crisis. Indicators point to an ongoing economic recovery, which appears to be strengthening. Real GDP growth is projected to increase to 4 percent in 2010 and 4.4 percent in 2011 after averaging 2.7 percent in 2008 and 2009. Inflation turned positive in June 2010 for the first time in more than a year, and has picked up mainly because of higher food prices. The overall fiscal deficit is expected to reach 4.8 percent of GDP in 2010, broadly in line with the budget target. The impact of the global financial crisis on workers' remittances and foreign direct investment (FDI) has been smaller than originally expected. The current account deficit is projected to change little in 2010 and remain at about 8 percent of GDP.

Following progress in macroeconomic and social outcomes since the mid-1990s, going forward the main challenge for Senegal will be to achieve higher growth in order to further reduce poverty and make progress toward the Millennium Development Goals. During the past 15 years, real per capita GDP growth in Senegal was more than 2 percent lower a year than in the best-performing, non-oil exporting countries in Sub-Saharan Africa. Senegal lags these countries in a number of areas including infrastructure, non-price competitiveness, and strength of fiscal institutions, as well as factors such as governance, the quality of institutions, and financial market development.

Program Summary

Increasing growth and improving resilience to shocks are priorities for the successor PSI. To reach these objectives, the authorities' policies under the PSI-supported economic program are aimed at

(i) Maintaining macroeconomic stability, supported by a sound fiscal policy and improvements in debt management;

(ii) Increasing government revenues to create more room in the budget for priority spending, including higher public investment in infrastructure, coupled with better investment planning and higher expenditure quality;

(iii) Consolidating progress in Public Financial Management by improving budget credibility and implementation and avoiding accumulation of new payment delays; and

(iv) pursuing structural reforms leading to an improved business climate, better governance, and more effective energy and financial sectors.

The reforms could result in higher trend growth than currently projected if the synergies of complementary reforms materialize.

Senegal: Selected Economic Indicators

	2006	2007	2008	2009 Est.	2010 Proj.
National income and prices (percent change)					
GDP at constant prices	2.4	5.0	3.2	2.2	4.0
Inflation (average)	2.1	5.9	5.8	-1.7	0.8
External sector					
Current account balance (percent of GDP)	-9.5	-11.8	-14.3	-7.7	-8.2
Exports (in CFA francs, percent change)	0.1	-3.7	23.0	-9.6	9.9
Imports (in CFA francs, percent change)	9.6	19.5	25.8	-18.2	6.3
Real effective exchange rate (percent change)	-0.2	5.3	4.4	-1.7	…
Money and credit					
Credit to the economy (percent change)	4.2	10.5	17.2	3.6	6.9
Government budget (percent of GDP)					
Revenue	19.7	21.1	19.4	18.6	19.7
Grants	1.5	2.6	2.3	3.0	2.4
Total expenditure and net lending	27.2	27.6	26.5	26.7	26.9
Overall balance	-5.7	-3.7	-4.6	-4.9	-4.8
Central government domestic debt	5.3	6.6	5.3	7.6	8.4
External public debt	17.7	17.9	19.7	27.0	31.6

Sources: Senegalese authorities and IMF staff estimates.