

**Senegal: Second Review Under the Policy Support Instrument and Request for
Modification of Assessment Criteria—Staff Report;
Informational Annex; Press Release**

In the context of the Second Review Under the Policy Support Instrument and Modification of Assessment Criteria for Senegal, the following documents have been released and are included in this package:

- The Staff Report for the Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria, prepared by a staff team of the IMF, following discussions that ended on October 19, 2011 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 December 2, 2011. 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.
- An Informational Annex
- A Press Release on the completion of the review

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

Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria

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

Approved by Roger Nord and Thomas Dorsey

December 2, 2011

Program discussions were held in Dakar October 5–19, 2011. The team comprised Mr. Joly (head), Mr. Kireyev, Mr. Mpatswe (all AFR), Ms. Shabunina (FAD), Mr. Jewell (SPR), Ms. Fichera (resident representative), and Mr. Ba (resident representative office). Mr. Sembene (OED) participated in the discussions, and Mr. Nord (AFR) joined for the final policy discussions. The team met with Minister of Economy and Finance Diop, Minister of Budget Diop, Minister of International Cooperation and Infrastructure Wade, Minister of Energy Sar, other senior government and BCEAO officials, and representatives of development partners.

Second program review under the Policy Support Instrument (PSI): Staff recommends completion of the review. Program implementation has been satisfactory with all quantitative targets for end-June 2011 met and overall progress achieved in structural reforms. The authorities' objectives and policy intentions are presented in the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP). Risks to the program are to the downside, due to a weakening global environment and uncertainty linked to the elections.

Outreach: The mission met with representatives of the business community, CSOs, and the media.

Fund relations: The PSI was approved by the Executive Board on December 3, 2010. The last Article IV consultation was concluded in May 2010.

Contents	Page
Executive Summary	4
I. Macroeconomic Performance and Risks	5
II. Program Performance	5
III. Policy Discussions	7
A. Safeguarding Fiscal Space	7
B. Consolidating Tax Reforms, Public Financial Management, and Debt Management	8
C. Other Reforms	9
IV. Program Monitoring	10
V. Staff Appraisal	11
 Tables	
1. Selected Economic and Financial Indicators, 2008–16	13
2. Balance of Payments, 2008–16	14
3. Government and FSE Financial Operations, 2008–16	15
4. Government and FSE Financial Operations, 2008–16	16
5. Monetary Survey, 2008–12	17
6. Financial Soundness Indicators for the Banking Sector, 2003–10	18
7. Quantitative Assessment Criteria and Indicative Targets for 2010–11 (billion CFA)	19
8. Quantitative Assessment Criteria and Indicative Targets for 2011–12 (percent of GDP)	20
 Figures	
1. Historical Perspective, 1995–2010	21
2. Recent Macroeconomic Developments, 2008–12	22
3. Medium-Term Outlook, 2009–16	23
4. Financial Sector Issues	24
 Boxes	
1. Energy Sector Reform: Progress and Challenges	12
 Appendix I. Letter of Intent	
Appendix I. Letter of Intent	25
Attachment I. Memorandum of Economic and Financial Policies	27
Attachment II. Technical Memorandum of Understanding	45

Abbreviations

AC	Assessment criterion
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
COSEC	Senegalese shippers council
CPIA	Country Policy and Institutional assessment
CFAF	CFA franc
DCMP	Central public procurement directorate
DSA	Debt sustainability analysis
DGID	Taxes, land, and property general directorate
DGD	Customs directorate
DPES	Document of economic and social policies
FSE	Energy sector support fund
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
NPV	Net present value
NPL	Nonperforming loan
PEFA	Public Expenditure and Fiscal Accountability
PFM	Public financial management
PPP	Public-private partnership
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	Government financial operations table
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union

Executive Summary

Growth dipped slightly in 2011 but is expected to remain robust in 2012 thanks to domestic factors. The 2011 growth projection has been revised downward to 4 percent because of persistent power outages up to late September. In 2012, large infrastructure investments (energy and transport) should boost growth to 4.4 percent and help make up for a less favorable international environment. Inflation is on the decline and projected to remain moderate.

Program implementation is on track. All continuous and end-June 2011 assessment criteria were met. By end-November, all but one structural benchmark for the second PSI review had been implemented, albeit two with small delays. The initial audit of the use of funds earmarked for the extension of the highway could not be implemented because the execution of the project has not yet started, and is rescheduled to end-April 2012.

Fiscal policy aims at preserving debt sustainability while allowing for higher infrastructure investment. The fiscal deficit objective for 2011 has been reduced to reflect delays in implementing investments in the power sector. The fiscal deficit is programmed at 5.6 percent of GDP in 2012, and is adjustable for higher/lower than programmed energy and highway investments. This flexible design allows for implementation of priority infrastructure investments while keeping a prudent stance on the rest of the budget.

Comprehensive tax reform is a key program objective for next year. A new tax code should enter into force with the 2013 budget. The reform will broaden the tax base by reducing tax expenditures, and more generally will make the tax system more efficient. While supporting this objective and the need to strengthen revenue collection, staff regrets the hasty introduction of new ad hoc taxes or levies. A piecemeal approach to taxation could weaken the acceptance of next year's reform.

Sustained reform efforts in the power sector are critical. Restoring ample, reliable, and less expensive electricity supply is essential for growth. In 2011, the national electricity company will incur large losses that will require 1.5 percent of GDP in budgetary transfers. At the current oil prices and in the absence of any tariff adjustments, the electricity subsidies will remain large in 2012, and would require a re-allocation of expenditures to meet the fiscal deficit target. The authorities stressed that action on the tariff, if any, would need to wait until after the elections and until the supply and quality of service have been restored. The operational and financial restructuring of the electricity company will be an important component of energy sector reforms next year.

Risks to the program are on the downside. A weaker global environment would affect the economy through trade and remittances, and the upcoming elections may reduce the reform momentum and increase uncertainty for investment.

I. MACROECONOMIC PERFORMANCE AND RISKS

1. **Macroeconomic performance has been satisfactory during 2011, and is expected to improve slightly in 2012, despite the more uncertain world economic environment** (Table 1, Figure 2). The Senegalese economy slowed down in the first half of 2011 because of persistent power cuts. Electricity supply improved in the third quarter, following measures to secure fuel purchases and increase capacity, and provided this is maintained, economic growth should still reach 4 percent this year. In 2012, the restoration of sufficient electricity provision, together with large energy and road infrastructure spending, should boost growth to 4.4 percent and help make up for a less favorable international environment. Inflation rose in early 2011 reflecting increasing international food and petroleum prices, but this trend reversed in the second half of the year. Year-on-year inflation is now back below 3 percent, and is expected to remain so next year. After a temporary freeze of key food prices in February 2011, the authorities allowed a full pass-through of international food prices and continued automatic adjustments of petroleum product prices. The current account deficit is projected to widen in 2011 to 7.8 percent of GDP from 6.1 percent in 2010, mainly because of high food prices and increased imports of capital goods.

2. **Downside risks to program implementation have increased.** Presidential and legislative elections, scheduled for the first half of 2012, have increased uncertainty and could result in slippages in program implementation. Political uncertainty, particularly if it lasts beyond the elections, could negatively affect private investment. A weakening external environment, particularly in Europe, also constitutes a significant downside risk. While the financial sector is mostly funded domestically, and therefore has a limited exposure to adverse developments in Europe, the experience of the 2008 crisis suggests that the economy could be affected first and foremost through the trade and remittance channels. There is no indication so far that aid will be revised downward, but this is an additional medium-term risk in a context of fiscal consolidation in traditional donor countries. On the upside, the ongoing recovery in Côte d'Ivoire improves growth prospects in the region.

II. PROGRAM PERFORMANCE

3. **Program implementation has been good.** The authorities met all quantitative assessment criteria for end-June 2011 and all but one indicative target for end-September 2011. To offset a weak revenue performance, the newly created committee on expenditure management recommended reducing the pace of commitments, particularly for current expenditures. As a result, the fiscal deficit target was met by a large margin. By end-November 2011, the authorities had implemented all but one structural benchmark set for this review, with small delays for two of them (Text Table 1). The benchmark on the initial audit of the use of funds earmarked for the extension of the highway could not be met because delays in the public procurement process delayed the execution of the corresponding expenditures. Staff proposes to reprogram this measure to the third review (end-April 2012). The share of public contracts signed by single tender largely exceeded 20 percent in the third quarter 2011 (indicative target). This reflected the new fuel purchase system for the electricity sector, with purchases now made at import parity prices from one of the licensed importers, resulting in a much lower cost. Also,

the extension of two existing power plants was awarded to the original contractor to ensure better continuity. Excluding the energy sector, the share of single tenders was about 6 percent. The new Document of Economic and Social Policies (DPES-III) was validated on November 25, 2011.

4. **Revenue underperformance reflected various weaknesses in the tax system.** The shortfall in fiscal revenue through end-June (about 0.8 percent of GDP) was due mainly to lower corporate tax and VAT, and delays in revenue recording because of IT problems, which were corrected in July. Weak performance of the corporate tax reflected exemptions provided under the investment code and lower profits in the food and telecom sectors in 2010. The underperformance of VAT resulted mainly from high VAT credits claimed in early 2011. Reducing tax exemptions and reforming the VAT credit system are two important elements of the tax reform envisaged by the authorities in 2012 (see below).

Table 1. Structural Measures: Second PSI Review

Measures	Implementation date	Macroeconomic significance	Status
Settle the final amounts of extrabudgetary expenditure, and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit.	June 30, 2011	Strengthen public financial management and fully normalize financial relations with the private sector.	Done.
Finalize legislation supporting leasing activities.	June 30, 2011	Improve the efficiency of the financial sector.	Done.
Publish monthly on a dedicated government website within two weeks following the end of the month, full information on: (i) the Energy Sector Support Fund (FSE); (ii) project status; (iii) planning and execution; (iv) status of financing and costs; and (v) special account balance.	August 31, 2011	Increase transparency in infrastructure investment.	Done with delay.
Formulate a strategy and timetable for establishment of a single treasury account	September 30, 2011	Strengthen public financial management.	Done.
Create the organizational chart and procedures for the entity responsible for managing the domestic and external public debt portfolio and market interventions.	September 30, 2011	Improve debt management.	Done with delay. The procedure manual was finalized in November.
Conduct an initial audit of the use of the funds earmarked for extension of the highway three months after work starts, and publish the report on the government's website.	October 31, 2011	Improve the transparency of infrastructure-related investments.	Not done. Reprogrammed to end-April 2012.

III. POLICY DISCUSSIONS

A. Safeguarding Fiscal Space

6. **The fiscal targets for 2012 aim at ensuring fiscal sustainability while allowing for higher public investment, particularly in energy and highway infrastructures.** Although preparations are well advanced, a number of capacity-increasing investment projects in the energy sector initially programmed for 2011 are likely to be executed in 2012 (MEFP ¶27). As a result, the overall fiscal deficit will be lower than expected in 2011, at 6.2 percent of GDP. The fiscal deficit for 2012 is expected to decrease to 5.6 percent of GDP, based on a relatively conservative projection for energy and highway sector investments—reflecting the projects already in the pipeline—and a prudent stance on the rest of the budget. However, the program allows for a higher deficit should the authorities manage to implement their ambitious infrastructure plans faster than expected in the baseline.

Text Table 2. Government and FSE Financial Operations, 2010-12 (Percent of GDP)

	June 2011		2011		2012	
	Prog.	Act.	EBS/11/76	Prog.	EBS/11/76	Prog.
Total revenue and grants	11.4	10.9	22.8	22.6	22.7	23.4
Tax revenue	9.7	8.9	19.3	19.0	19.4	20.0
FSE revenue	0.2	0.3	0.5	0.6	0.4	0.5
Other	1.5	1.7	3.0	3.0	2.9	2.9
Total expenditure and net lending	14.9	13.2	29.7	28.9	28.3	28.9
Current expenditure	8.5	7.3	16.9	17.4	16.2	16.3
Capital expenditure and net lending	6.4	5.9	12.8	11.4	12.1	12.6
Overall fiscal balance	-3.5	-2.3	-6.9	-6.2	-5.6	-5.6

7. **Sustained reform efforts in the power sector will also help reduce the high fiscal costs of electricity subsidies.** Restoring ample, reliable, and less expensive electricity supply is essential for growth, but also because the burden of an inefficient power sector is weighing increasingly on the fiscal accounts, beyond the costs of Plan Takkal investments. SENELEC has again been incurring substantial losses in 2011, which will require large budgetary transfers. These will result in a subsidy of about 1.5 percent of GDP to electricity consumers (comparable to the 2011 budget allocation for health). If oil prices remain at their current level and no action is taken on electricity tariff, the subsidy will remain large in 2012 and would likely require a re-allocation of expenditures to meet the fiscal deficit target. Staff underscored that electricity subsidies disproportionately benefit wealthy consumers and are likely to crowd out more pro-poor expenditures. The authorities stressed that action on tariffs, if any, would need to wait until after the elections and until electricity supply and the quality of service have been restored. Staff and the authorities agreed that the operational and financial restructuring of SENELEC would be a key component of energy sector reforms next year.

MEFP ¶28

8. **To expand their margin for fiscal maneuver in 2012, the authorities have introduced new taxes/levies on incoming international telephone calls and cement sales.**

The total contribution of these two measures, which are included in the draft 2012 budget revenue and therefore subject to normal budgetary procedures, is estimated by the authorities at 0.8 percent of GDP. While supporting the objective of strengthening revenue collection, staff noted that these measures were likely to be less efficient than other alternatives (such as taxing profits) and would weaken the coherence of the comprehensive tax reform envisaged for 2012.¹ Moreover, these measures would likely raise the cost of doing business in Senegal, thereby affecting future growth and employment prospects.

MEFP ¶¶15

9. **The authorities plan to resort increasingly to the regional market to finance the fiscal deficit.**

In May 2011, the government issued a US\$500 million 10-year Eurobond to finance energy and highway investments. The authorities used part of the proceeds to retire the Eurobond issued in 2009, leaving US\$200 million under the program's nonconcessional borrowing envelope that they do not plan to use at this juncture. Staff and the authorities agreed that while the operation had raised Senegal profile in international capital markets, it entailed costs (e.g., carry costs) and risks that should not be underestimated.² Staff supports the authorities' request to raise the ceiling for external borrowing with a grant element of at least 15 percent from CFAF 30 billion to 44 billion (0.6 percent of GDP). The financing of the 2012 budget will require raising large resources from the regional market, with gross issuance expected to exceed CFAF 500 billion, compared with about CFAF 350 billion in 2011 and CFAF 300 billion in 2010. Staff and the authorities concurred that the development of the regional market was welcome and very promising, but also that increasing recourse to it should be accompanied by a strengthening of debt management capacity.

MEFP ¶¶12-13

B. Consolidating Tax Reforms, Public Financial Management, and Debt Management

10. **The authorities plan to introduce a comprehensive tax reform in 2012**

(Text Table 3). The authorities are working on a deep reform of the tax code, with extensive Fund TA. In 2012, they intend to analyze the economic and revenue implications of tax policy changes, and prepare proposals on the reform of the personal income tax and VAT (particularly the credit refund system) and on reducing tax expenditures. The government plans to submit the new General Tax Code to Parliament by end-September 2012 (new structural benchmark), so that it could enter into force with the 2013 budget. The modernization of tax and customs administration will continue in 2012 with FAD TA support. A new medium-size taxpayer office will soon be operational in Dakar. The roll out of a computerized customs system and its integration with the information systems of the treasury

MEFP ¶¶16-19

¹ Staff pointed out that the tax on incoming calls would likely lead to lower call volumes and encourage users to switch to alternative modes of communication (e.g., internet-based) not subjected to the tax.

² The yield at issuance was 9.25 percent. In addition, the cost of retiring the previous bond (including exiting the swap to hedge foreign exchange risk) amounted to an estimated CFAF 9.5 billion.

and tax directorates will continue. The authorities will also introduce a single taxpayer identification number in customs operations (new structural benchmark, January 1, 2012).

11. **Further strengthening public financial management (PFM) will raise the efficiency of public spending.** Good progress has been made in the transposition of WAEMU directives, expected to be finalized by end-2011. The budgeting and control of certain current expenditures (contractual employees in education, scholarships) is expected to improve in 2012. To strengthen investment planning, the authorities finalized the first draft of the guidelines for project preparation. However, the preparation of the guidelines for project assessment, which is expected to benefit from recently approved World Bank support, will not be completed by end-December 2011; staff proposes rescheduling this structural benchmark to end-March 2012. To improve cash management, the authorities will take a number of steps in 2012 to move further toward a single treasury account. To increase transparency in the management of budgetary resources, the authorities plan to submit regularly—in line with existing regulations— budget execution laws for the previous year to the Audit Court and Parliament starting in 2013. They also plan to conduct surveys of agencies and other public entities (new structural benchmark, end-January 2012). The budgets of these entities will be consolidated and attached to the 2013 budget law. These measures will contribute to increase budget transparency and integrity, and to a better monitoring of fiscal risks.

MEFP ¶¶20-25

12. **Debt management will be further strengthened in 2012.** The new debt directorate is expected to be operational by January 15, 2012 (structural benchmark), and a medium-term debt management strategy will be prepared by end-June 2012 (structural benchmark). Developing the capacity to design and implement an appropriate strategy is critical at a time when the range of financing options has broadened.

MEFP ¶14

C. Other Reforms

13. **The authorities will pursue the reform of the macro-critical energy sector.** Large investments to expand power supplies and reduce their costs are in the pipeline. The authorities are working on a plan for the financial and operational restructuring of SENELEC which will start being implemented in early 2012. The issue of electricity subsidies will be subject to a thorough review in the coming months leading to an action plan by end-April 2012 (new structural benchmark).

MEFP ¶¶26-28

14. **Reform efforts in other areas will be sustained.** In the *financial sector*, the authorities finalized the new law on leasing and are drafting regulations on private credit agencies. They are also preparing a study on the supervision of the microfinance sector (structural benchmark, end-January 2012). Progress in improving the *business climate* and economic governance has been modest in the recent period. The authorities approved the revised public procurement code, but the modernization of the legal and operational framework for land and property transactions has been delayed; the authorities plan to implement a number of specific steps in this area in 2012. Staff underscored the importance of these reforms to increase the economy's long-term growth potential.

MEFP ¶¶29-32

Table 3. Structural Measures: Third and Fourth PSI Reviews

Measures	MEFP §	Implementation date	Benchmark for review	Macroeconomic significance
Introduce a unique taxpayer identification number in customs operations	19	January 1, 2012	3 rd	Modernize tax system
Start up the new debt entity	14	January 15, 2012	3 rd	Improve debt management
Finalize a survey of agencies and other public entities	25	January 31, 2012	3 rd	Strengthen PFM
Finalize the study of the resources used in the microfinance sector and their impact with the view to rationalizing them	30	January 31, 2012	3 rd	Strengthen control and supervision of the microfinance sector.
Prepare a project evaluation guide	23	March 31, 2012	3 rd	Improve investment planning
Conduct an initial audit of the use of the resources allocated to the extension of the highway three months after the start of the project and publish the report on the government's website	4	April 30, 2012	3 rd	Improve the transparency of infrastructure-related investments.
Adopt an action plan on subsidies to electricity consumers	28	April 30, 2012	3 rd	Reform the energy sector
Prepare a medium-term debt strategy	14	June 30, 2012	4 th	Improve debt management
Finalize the new tax code and submit it to Parliament	16	September 30, 2012	4 th	Improve efficiency of the tax system

IV. PROGRAM MONITORING

15. **Staff proposes to revise some parameters in program monitoring, in particular to allow for more flexibility in the timing of implementation of priority investments.** A new program target of 6.2 percent of GDP (against 6.9 percent previously) is proposed for the overall fiscal deficit in 2011. A new adjustor would adjust the deficit target for any excess (or shortfall) in energy and highway investment spending financed from domestic resources compared with the programmed levels (with an upward cap at CFAF 50 billion, 0.7 percent of GDP). The ceiling on the upward adjustment of the fiscal deficit, if the amount of concessional financing exceeds its programmed level, would be reduced from

MEFP ¶¶33-34

CFAF 70 to 50 billion. The assessment criteria related to the contracting or guaranteeing of new nonconcessional external debt would be expanded to cover all public institutions and local governments. The ceiling on untied nonconcessional external debt with a grant element of at least 15 percent would increase from CFAF 30 to 44 billion and will be applied cumulatively over the duration of the program. The ceiling of contracts executed by single tender would exclude fuel purchases for the electricity sector.

V. STAFF APPRAISAL

16. **Program implementation is on track and growth is expected to remain robust, but risks have increased.** Staff welcomes the prudent approach to expenditure management in 2011 and the full pass-through of international food prices and continued automatic adjustments of petroleum product prices. Staff encourages the authorities to continue resisting pre-election pressures on expenditures and PFM practices. Prudent policy making is also justified by a weakening external environment, particularly in Europe, which constitutes another downside risk.

17. **Sharply scaled-up public investment addresses critical infrastructure gaps but also poses risks for medium-term fiscal sustainability.** The design of the fiscal program will allow the authorities to implement their priority infrastructure plans—including the carryover of spending not executed in 2011—but requires keeping a prudent stance on the rest of the budget. In the medium term, the overall fiscal deficit will need to return to levels consistent with fiscal sustainability (i.e., less than 4 percent of GDP).

18. **Sustained reform efforts in the power sector will be needed in 2012.** Restoring ample, reliable, and less expensive energy supplies is essential for growth prospects. Staff welcomes the substantial decrease in power outages and encourages the authorities to ensure prompt implementation of planned investments. Losses at state-owned SENELEC are putting severe strain on the budget and crowd out more pro-poor expenditures. Should international oil prices remain at current levels, these losses will remain high and require expenditure reallocation in 2012. Staff urges the authorities to accelerate reforms of SENELEC and to consider options to reduce the tariff gap.

19. **Staff supports the authorities' plans to continue improving the tax system and PFM.** A major reform of the tax code should make it more efficient and broaden the tax base by reducing tax expenditures. While supporting the objective of strengthening revenue collection, staff regrets the hasty introduction of new ad hoc taxes or levies, which are likely to increase distortions significantly; such a piecemeal approach could also weaken the coherence of the comprehensive tax reform envisaged for next year. The collection of the new telecom tax will need to be made in a cost-effective and transparent way. Planned reforms to further improve investment, debt, and cash management and increase fiscal transparency should be implemented forcefully.

20. **Staff recommends completion of the second review under the PSI.** Staff also recommends the modification of assessment criteria discussed in the report.

Box 1. Energy Sector Reform: Implementation to Date and Prospects

The origins of the reform plan. Heavy dependence on imported oil products for power generation, delays in making tariff adjustments and investments in capacity to match increasing demand for electricity (as well as in new technologies, transport and distribution), and ensuing financial difficulties of the national power utility (SENELEC) plunged Senegal into a deep power crisis in mid-2010. To address the crisis, the government adopted an emergency plan in February 2011 (Plan Takkal, see Country Report No. 11/139, Box 1) and started its implementation shortly thereafter.

A comprehensive, medium-term modernization plan. Beyond the emergency measures for 2011-12 accommodated in the program (see Table), the power sector reform plan now extends to 2016 and covers investments in power generation (including with the introduction of coal-fired power plants in the medium term) but also projects in many other areas. In its most ambitious version, which would make Senegal a regional power hub, the plan's total investment is currently estimated by the authorities at about 27 percent of the 2011 GDP. Given the size of the financing requirements, and limited scope for large additional borrowing, particularly on nonconcessional terms, substantial contributions from private investors would be needed.

Energy sector reform financing needs (CFA billion)		
	Planned 1/	
	2011	2012
Tariff gap+Recapitalization	124.1	40.0
Leasing of capacity	13.4	25.8
Other expenditures	1.9	3.3
Investments	35.6	129.8
o/w: Generation	35.6	109.8
Transport		10.0
Distribution		10.0
Total	175.1	199.0
Percent of GDP	2.6	2.7

Source: Senegalese authorities and staff estimates

1/ Amounts included in the program's baseline scenario.

Progress in implementation to date and prospects for 2012. Actions were taken to reduce the blackouts, with the deployment of 150MW in temporary (rented) capacity—to cover the capacity gap at peak and allow for the maintenance and rehabilitation of existing power plants—and reliable fuel supply to SENELEC through the Energy Sector Support Fund (FSE), resulting in a buildup of fuel reserves and savings on fuel costs. In July 2011, the authorities approved a new tariff regulatory formula that better reflects SENELEC's actual cost structure. The new formula reduced the tariff review period from five to three years and the period for revising tariff conditions and paying tariff compensations from annual to quarterly. As a result, the estimate of the 2011 tariff gap was revised upward substantially compared to the previous staff report (from CFAF 45 billion to almost CFAF 100 billion). Work also started to put in place in the near future new power generation capacity that is less costly to operate than rental units, including the expansion of existing power plants and the acquisition of mobile containerized units and barges. Investments will also be made in 2012 to rehabilitate existing units and upgrade transportation and distribution infrastructure.

Restructuring SENELEC. In addition to investing in critical power infrastructures, the authorities are finalizing a financial and operational restructuring of SENELEC which they intend to launch in early 2012. This component of the reform is also key to making the power sector more efficient, and electricity less expensive. Electricity losses, measured as the percentage of supply which is effectively billed, exceeded 20 percent in recent years, suggesting substantial room for improvement. Progress can also be made in the collection of amounts billed and in reducing operating costs. The restructuring of SENELEC will help address these issues. It will also need to tackle the financial situation of SENELEC, including through a resolution of debts between the power utility and various public entities.

Rep. of Senegal: Electric Power Supply, Sales and Costs, 2006-2010					
	2006	2007	2008	2009	2010
Electricity supply (Gwh)	2,192	2,306	2,403	2,490	2,618
Sales & Losses (percent of power supply)					
Electricity sales	79	77	78	77	79
Electricity losses	21	23	22	23	21
Power sale prices and costs (CFA/KWh sold)					
Average sale prices	90	101	112	115	118
Average operating cost	147	134	147	128	150
Average total cost	208	174	182	174	192
Tariff gap (CFA/KWh sold)					
Average sale price/operating cost	-57	-33	-35	-13	-32
Average sale price/total cost	-118	-73	-70	-59	-74

Sources: Senegalese authorities and staff estimates

Table 1. Senegal: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				EBS/ 11/76	Proj.			Proj.		
	(Annual percentage change)									
National income and prices										
GDP at constant prices	3.2	2.2	4.2	4.5	4.0	4.4	4.8	5.1	5.4	5.5
<i>Of which:</i> nonagriculture GDP	1.4	1.2	4.3	4.5	4.0	4.5	4.8	5.1	5.4	5.6
GDP deflator	6.6	-0.9	1.3	3.0	3.4	2.9	2.4	2.4	2.1	2.1
Consumer prices										
Annual average	5.8	-1.7	1.2	3.8	3.6	2.5	2.1	2.1	2.1	2.1
End of period	4.3	-3.4	4.3	2.7	2.7	2.3	2.1	2.1	2.1	2.1
External sector										
Exports, f.o.b. (CFA francs)	23.0	0.2	9.8	17.6	3.3	7.9	6.3	5.6	6.0	8.2
Imports, f.o.b. (CFA francs)	25.8	-22.4	6.0	21.9	9.1	9.4	4.2	4.8	4.9	7.2
Export volume	-14.7	34.1	6.0	7.4	10.3	4.1	5.6	5.6	5.7	6.0
Import volume	18.7	-2.6	4.0	6.7	5.0	8.7	3.9	4.7	4.9	5.5
Terms of trade ("–" = deterioration)	19.7	5.9	3.0	-7.8	-5.7	0.8	0.7	0.3	0.5	0.4
Nominal effective exchange rate	3.4	0.4	-4.5	...	...	...	...	...	...	...
Real effective exchange rate	4.1	-2.4	-6.2	...	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	6.2	6.1	8.6	9.1	7.2	13.4	10.0	9.0	7.9	7.6
Domestic credit	7.3	6.8	10.9	11.9	11.3	12.9	9.6	8.7	7.9	8.3
Credit to the government (net)	-3.5	4.2	4.0	5.2	5.5	5.2	3.2	1.9	1.3	1.2
Credit to the economy (percentage growth)	17.2	3.6	10.4	10.3	8.9	12.4	10.4	11.0	10.8	11.5
	(Percent of GDP, unless otherwise indicated)									
Government financial operations										
Revenue	19.4	18.6	19.4	20.4	20.2	21.1	21.1	21.1	21.1	20.9
Grants	2.3	3.0	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.1
Total expenditure and net lending	26.5	26.7	27.2	29.7	28.9	28.9	28.0	27.7	27.3	26.9
Overall fiscal surplus (+) or deficit (–)										
Payment order basis, excluding grants	-6.9	-7.9	-7.8	-9.3	-8.6	-7.8	-7.0	-6.6	-6.2	-5.9
Payment order basis, including grants	-4.6	-4.8	-5.2	-6.9	-6.2	-5.6	-4.7	-4.4	-3.9	-3.8
Primary fiscal balance 1/	-3.9	-4.1	-4.3	-5.7	-5.1	-4.1	-3.3	-3.0	-2.5	-2.4
Gross domestic investment	34.1	29.8	31.4	31.0	30.7	32.5	32.5	32.6	32.9	32.9
Government	10.0	10.1	11.6	12.0	10.9	12.7	12.4	12.2	12.2	11.8
Nongovernment	24.1	19.7	19.8	19.0	19.8	19.8	20.1	20.4	20.7	21.1
Gross domestic savings	7.6	12.9	15.0	12.9	13.0	14.3	15.0	15.7	16.7	17.2
Government	5.8	5.8	7.3	6.3	5.9	8.7	9.1	9.2	9.7	9.4
Nongovernment	1.8	7.1	7.7	6.5	7.1	5.6	5.9	6.5	7.0	7.8
Gross national savings	20.0	23.1	25.3	22.7	22.8	23.3	23.6	24.1	24.7	25.2
External current account balance										
Including current official transfers	-14.2	-6.7	-6.1	-8.2	-7.9	-9.2	-8.8	-8.6	-8.2	-7.7
Excluding current official transfers	-15.2	-7.5	-6.8	-9.2	-8.8	-10.1	-9.7	-9.4	-9.0	-8.5
Central government domestic debt	5.3	7.6	8.4	10.3	10.6	11.6	12.4	12.5	12.4	12.3
External public debt (nominal)	19.7	27.0	27.5	30.8	27.8	28.9	29.5	30.8	31.7	32.5
External public debt service										
Percent of exports	4.3	5.0	5.8	10.6	12.5	7.3	7.1	6.0	6.8	6.5
Percent of government revenue	5.9	6.5	7.4	13.5	14.7	8.1	7.7	6.3	7.0	6.8
Gross domestic product (CFAF billions)	5,950	6,023	6,360	6,839	6,837	7,346	7,879	8,475	9,120	9,830

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

1/ Total revenue and grants minus total expenditure and net lending, excluding interest expenditure.

Table 2. Senegal: Balance of Payments, 2008–16

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				EBS/ 11/76	Proj.			Proj.		
(CFAF billions, unless otherwise indicated)										
Current account	-844	-403	-388	-564	-538	-679	-696	-725	-747	-755
Balance on goods	-1,523	-958	-978	-1,192	-1,130	-1,254	-1,280	-1,331	-1,382	-1,467
Exports, f.o.b.	988	990	1,087	1,231	1,122	1,211	1,288	1,360	1,442	1,559
Imports, f.o.b.	-2,510	-1,948	-2,065	-2,423	-2,252	-2,465	-2,568	-2,691	-2,824	-3,026
Services and incomes (net)	-76	-141	-125	-131	-155	-175	-181	-180	-187	-174
Credits	709	563	601	654	615	627	639	655	674	719
Debits	-784	-704	-726	-785	-770	-802	-820	-836	-861	-893
Of which: interest on public debt	-17	-27	-34	-51	-50	-62	-60	-54	-60	-67
Unrequited current transfers (net)	754	695	715	759	747	750	766	786	822	885
Private (net)	722	672	696	719	708	713	723	739	770	830
Public (net)	33	23	19	40	39	37	42	47	52	55
Of which: budgetary grants	38	46	22	37	37	32	34	37	40	42
Capital and financial account	738	554	500	698	649	696	710	794	791	805
Capital account	111	146	151	154	156	226	237	239	182	177
Private capital transfers	8	8	10	9	11	12	13	14	15	16
Project grants	101	136	140	125	125	134	144	155	167	162
Debt cancellation and other transfers ^{1/}	2	2	0	20	20	80	80	70	0	0
Financial account	627	408	349	544	493	470	473	555	609	628
Direct investment	122	119	127	135	129	122	127	134	141	152
Portfolio investment	21	8	33	60	58	60	55	50	46	49
Other investment	485	281	189	349	307	289	291	371	421	426
Public sector (net)	208	305	136	343	259	197	174	257	268	281
Of which: disbursements	264	343	190	503	434	290	268	326	342	354
program loans	70	55	30	38	38	25	27	29	31	33
project loans	192	107	160	189	172	221	241	255	266	271
other	2	181	0	275	224	44	0	42	46	49
Of which: SDR allocation	0	95	0	0	0	0	0	0	0	0
amortization	-44	-50	-53	-160	-175	-92	-94	-69	-75	-73
Private sector (net)	279	-24	53	6	48	91	117	114	153	145
Errors and omissions	-2	0	0	0	0	0	0	0	0	0
Overall balance	-105	151	112	133	110	18	14	69	44	50
Financing	105	-151	-112	-133	-110	-18	-14	-69	-44	-50
Net foreign assets (BCEAO)	-8	-147	-10	-168	-126	-33	-31	-87	-63	-69
Net use of Fund resources	-17	-47	-24	-2	2	3	3	9	18	19
Purchases/disbursements	-17	-47	-24	0	0	0	0	0	0	0
Repurchases/repayments	0	0	0	-2	2	3	3	9	18	19
Other	9	-100	14	-167	-127	-36	-34	-96	-81	-89
Deposit money banks	98	-24	-120	18	-2	-2	-1	0	0	1
Exceptional financing (debt relief)	16	20	19	17	17	18	18	18	18	19
Residual financing gap	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
Current account balance										
Including current official transfers (percent of GDP)	-14.2	-6.7	-6.1	-8.2	-7.9	-9.2	-8.8	-8.6	-8.2	-7.7
Excluding current official transfers (percent of GDP)	-15.2	-7.5	-6.8	-9.2	-8.8	-10.1	-9.7	-9.4	-9.0	-8.5
Gross official reserves (imputed reserves, billions of US\$)	1.5	2.1	2.0	2.4	2.4	2.5	2.5	2.7	2.7	2.8
(percent of broad money)	37.1	43.2	39.7	40.3	39.5	35.3	32.6	31.3	29.6	28.2
WAEMU gross official reserves (billions of US\$)	10.5	13.9	12.9	...	...	...	...	...	...	...
(percent of broad money)	48.8	58.4	51.8	...	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	5.6	7.1	6.7	...	...	...	...	...	...	...
Gross domestic product	5,950	6,023	6,360	6,839	6,837	7,346	7,879	8,475	9,120	9,830

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

^{1/} Includes Millennium Challenge Account (MCA) grants during 2011–15.

Table 3. Senegal: Government and FSE Financial Operations, 2008–16

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				EBS/ 11/76	Prog.	Prog.		Proj.		
(Billions of CFA francs, unless otherwise indicated)										
Total revenue and grants	1,293	1,305	1,398	1,558	1,545	1,717	1,838	1,978	2,130	2,262
Revenue	1,153	1,123	1,237	1,396	1,383	1,551	1,660	1,786	1,924	2,058
Tax revenue	1,088	1,086	1,195	1,318	1,299	1,467	1,573	1,695	1,829	1,994
Income tax	273	288	339	365	356	379	410	451	495	536
Taxes on goods and services	616	615	693	753	728	851	912	978	1,051	1,153
Taxes on petroleum products	199	182	162	200	216	237	250	266	283	305
Nontax revenue	65	37	42	45	45	48	52	56	60	64
FSE 1/				33	39	35	35	35	35	0
Grants	140	182	162	162	162	166	178	192	206	204
Budgetary	38	46	22	37	37	32	34	37	40	42
Budgeted development projects	101	136	140	125	125	134	144	155	167	162
Total expenditure and net lending 1/	1,579	1,607	1,729	2,032	1,973	2,126	2,210	2,349	2,491	2,639
Current expenditure	979	997	995	1,159	1,191	1,198	1,236	1,315	1,381	1,480
Wages and salaries 2/	348	364	392	416	416	444	473	508	547	590
Interest due	39	45	60	85	84	110	116	119	132	145
Of which : external	24	23	38	51	50	62	60	54	60	67
Other current expenditure	593	587	543	658	691	644	647	687	702	746
Transfers and subsidies	333	286	240	283	331	249	250	266	254	271
Of which : SAR and butane subsidy	69	33	0	15	15	4	0	0	0	0
Of which : SENELEC/energy	30	30	0	76	124	40	30	30	0	0
Of which : Food subsidies	46	0	0	0	0	0	0	0	0	0
Goods and services	239	292	290	363	348	383	385	409	436	462
HIPC and MDRI current spending	21	9	12	12	12	12	12	12	12	12
Capital expenditure	595	607	736	823	747	936	974	1,035	1,109	1,159
Domestically and nonconcessionally financed	314	369	437	520	466	557	601	639	692	743
HIPC and MDRI-financed	63	60	47	49	49	48	47	48	50	52
Non-HIPC/MDRI financed	251	309	390	471	417	509	554	591	642	691
Externally (concessionally) financed	281	237	299	303	281	379	373	396	418	417
Net lending	5	3	-2	51	35	-8	0	0	0	0
Of which : On-lending	12	6	1	54	38	12	13	14	15	16
Selected public sector entities balance 3/	13	9	-3	0	0	0	0	0	0	0
Primary fiscal balance	-235	-247	-270	-393	-348	-304	-260	-256	-232	-237
Overall fiscal balance (excluding grants)	-413	-474	-495	-636	-590	-576	-550	-563	-567	-581
Overall fiscal balance (including grants)	-273	-292	-334	-474	-427	-410	-371	-371	-360	-377
Financing	273	292	334	474	427	410	371	371	360	377
External financing	225	224	173	341	323	262	267	301	308	322
Drawings	262	163	190	227	210	246	268	283	297	304
Program loans	70	55	30	38	38	25	27	29	31	33
Project loans	192	107	160	189	172	221	241	255	266	271
Nonconcessional loans	0	88	0	206	224	44	39	42	46	49
Amortization due	-44	-50	-53	-160	-175	-92	-94	-69	-75	-73
T-bills and bonds issued in WAEMU (net)	-9	4	18	50	47	47	35	26	22	23
Debt relief and HIPC Initiative assistance	16	20	19	17	17	18	18	18	18	19
Domestic financing	124	157	172	138	109	148	105	70	52	55
Banking system 4/	-46	116	172	133	104	148	105	70	52	55
Of which : T-bills and bonds (net)	-14	52	83	149	141	140	106	77	67	70
Nonbank financing	169	41	0	5	5	0	0	0	0	0
Settlement of payment delays	-84	-95	-13	-5	-5	0	0	0	0	0
Errors and omissions	9	6	1	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
Budgetary float (program definition)	66	45	50	50	50	50	50	50	50	50
New issues of government securities	131	147	292	351	362	519	...	...	...	...
Priority expenditure (percent of total expenditure) 5/	33	36	37	35	35	35	...	...	...	...
Gross domestic product	5,950	6,023	6,360	6,839	6,837	7,346	7,879	8,475	9,120	9,830

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

1/ Starting in 2011, the data covers also the FSE operations.

2/ Excludes project-related wages and salaries included in capital spending and the salaries of autonomous agencies and health and education contractual workers included in transfers and subsidies.

3/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).

4/ Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.

5/ Expenditure on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government and FSE Financial Operations, 2008–16

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				EBS/ 11/76	Prog.	Prog.		Proj.		
(Percent of GDP)										
Total revenue and grants	21.7	21.7	22.0	22.8	22.6	23.4	23.3	23.3	23.4	23.0
Revenue	19.4	18.6	19.4	20.4	20.2	21.1	21.1	21.1	21.1	20.9
Tax revenue	18.3	18.0	18.8	19.3	19.0	20.0	20.0	20.0	20.1	20.3
Income tax	4.6	4.8	5.3	5.3	5.2	5.2	5.2	5.3	5.4	5.5
Taxes on goods and services	10.3	10.2	10.9	11.0	10.6	11.6	11.6	11.5	11.5	11.7
Taxes on petroleum products	3.3	3.0	2.6	2.9	3.2	3.2	3.2	3.1	3.1	3.1
Nontax revenue	1.1	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FSE				0.5	0.6	0.5	0.4	0.4	0.4	0.0
Grants	2.3	3.0	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.1
Total expenditure and net lending	26.5	26.7	27.2	29.7	28.9	28.9	28.0	27.7	27.3	26.9
Current expenditure	16.5	16.6	15.6	16.9	17.4	16.3	15.7	15.5	15.1	15.1
Wages and salaries	5.8	6.0	6.2	6.1	6.1	6.0	6.0	6.0	6.0	6.0
Interest payments	0.6	0.8	0.9	1.2	1.2	1.5	1.5	1.4	1.5	1.5
Other current expenditure	10.0	9.7	8.5	9.6	10.1	8.8	8.2	8.1	7.7	7.6
Of which: Goods and services	4.0	4.9	4.6	5.3	5.1	5.2	4.9	4.8	4.8	4.7
Of which: Transfers and subsidies	5.6	4.7	3.8	4.1	4.8	3.4	3.2	3.1	2.8	2.8
Of which: Energy and food subsidies	2.4	1.0	0.0	1.3	2.0	0.6	0.4	0.4	0.0	0.0
HIPC and MDRI current spending	0.3	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Capital expenditure	10.0	10.1	11.6	12.0	10.9	12.7	12.4	12.2	12.2	11.8
Domestically and nonconcessionally financed	5.3	6.1	6.9	7.6	6.8	7.6	7.6	7.5	7.6	7.6
Externally (concessionally) financed	4.7	3.9	4.7	4.4	4.1	5.2	4.7	4.7	4.6	4.2
Net lending	0.1	0.1	0.0	0.7	0.5	-0.1	0.0	0.0	0.0	0.0
Selected public sector entities balance 2/	0.2	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-3.9	-4.1	-4.3	-5.7	-5.1	-4.1	-3.3	-3.0	-2.5	-2.4
Overall fiscal balance										
Payment order basis, excluding grants	-6.9	-7.9	-7.8	-9.3	-8.6	-7.8	-7.0	-6.6	-6.2	-5.9
Payment order basis, including grants	-4.6	-4.8	-5.2	-6.9	-6.2	-5.6	-4.7	-4.4	-3.9	-3.8
Financing	4.6	4.8	5.2	6.9	6.2	5.6	4.7	4.4	3.9	3.8
External financing	3.8	3.7	2.7	5.0	4.7	3.6	3.4	3.5	3.4	3.3
Domestic financing	2.1	2.6	2.7	2.0	1.6	2.0	1.3	0.8	0.6	0.6
Settlement of payment delays	-1.4	-1.6	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>	(Percent of GDP, unless otherwise indicated)									
Priority expenditure 3/	8.8	9.5	10.0	9.3	9.0	9.9	...	...	...	...
Wages and salaries (percent of revenue)	30.2	32.4	31.7	29.8	30.1	28.6	28.5	28.5	28.4	28.7

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

1/ Starting in 2011, the data covers also the FSE operations.

2/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).

3/ Expenditure on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 5. Senegal: Monetary Survey, 2008–12

	2008	2009	2010	2011		2012
				EBS/ 11/76	Proj.	Proj.
(CFAF billions)						
Net foreign assets	762	859	988	1,139	1,116	1,150
Central Bank of West African States (BCEAO)	653	725	735	903	860	893
Commercial banks	109	133	253	236	256	257
Net domestic assets	1,245	1,367	1,558	1,784	1,741	2,124
Net domestic credit	1,467	1,604	1,847	2,149	2,135	2,504
Net credit to the government	28	112	200	340	341	489
Central bank	-14	119	202	193	143	169
Commercial banks	33	-9	0	143	200	321
Other institutions	9	2	-2	4	-2	-2
Credit to the economy	1,440	1,492	1,647	1,810	1,794	2,015
Other items (net)	-223	-236	-289	-365	-394	-380
Broad money (M2)	2,007	2,226	2,540	2,923	2,856	3,274
Currency outside banks	474	495	561	598	598	588
Total deposits	1,532	1,731	1,979	2,325	2,259	2,686
Demand deposits	779	864	988	1,224	1,127	1,341
Time deposits	754	867	991	1,100	1,131	1,345
(Change in percentage of beginning-of-period broad money stock)						
Net foreign assets	-4.5	4.8	5.8	5.9	5.0	1.2
BCEAO	0.4	3.6	0.4	6.6	4.9	1.2
Commercial banks	-5.0	1.2	5.4	-0.7	0.1	0.0
Net domestic assets	6.2	6.1	8.6	9.1	7.2	13.4
Net credit to the government	-3.5	4.2	4.0	5.2	5.5	5.2
Credit to the economy	10.7	2.6	7.0	6.6	5.8	7.8
Other items (net)	-1.0	-0.7	-2.4	-2.7	-4.1	0.5
Broad money (M2)	1.7	10.9	14.1	15.1	12.4	14.6
<i>Memorandum items:</i>				(Units indicated)		
Velocity (GDP/M2; end of period)	3.0	2.7	2.5	2.3	2.4	2.2
Nominal GDP growth (percentage growth)	10.0	1.2	5.6	7.5	7.5	7.4
Credit to the economy (percentage growth)	17.2	3.6	10.4	10.3	8.9	12.4
Credit to the economy/GDP (percent)	24.2	24.8	25.9	26.5	26.2	27.4
Variation of net credit to the government (yoy; CFAF billions)	-68.3	83.7	88.5	133.1	140.8	147.7
Central bank refinance rate (eop/latest; percent)	4.75	4.25	4.25	4.25	4.25	...

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

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

	2003	2004	2005	2006	2007	2008	2009	2010
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
Capital adequacy								
Capital to risk-weighted assets	11.7	11.5	10.8	12.9	13.5	13.8	16.3	18.0
Regulatory capital to risk-weighted assets	12.1	11.9	11.1	13.1	13.6	13.9	16.5	18.2
Capital to total assets	7.8	7.7	7.6	8.3	8.3	9.1	9.3	10.0
Asset composition and quality								
Total loans to total assets	59.6	57.1	64.0	63.8	58.8	62.8	59.5	57.5
Concentration: loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	88.5	100.9	71.7	70.6
Sectoral distribution of loans								
Industrial	41.1	33.6	35.5	28.9	25.1	19.5	27.5	21.0
Retail and wholesale trade	19.9	19.3	17.0	18.9	14.4	18.5	24.5	18.9
Services, transportation and communication	17.2	27.4	28.0	30.0	29.6	31.1	34.1	34.5
Gross NPLs to total loans	13.3	12.6	11.9	16.8	18.6	17.4	18.7	20.2
<i>Of which: without ICS</i>	...	...	...	...	12.7	14.2	15.8	15.8
Provisions to NPLs	75.3	75.7	75.4	52.0	53.8	51.5	53.1	54.9
<i>Of which: without ICS</i>	...	...	...	...	74.6	65.7	64.7	65.3
NPLs net of provisions to total loans	3.3	3.4	3.2	8.8	8.6	9.3	9.7	9.1
<i>Of which: without ICS</i>	...	...	...	...	3.6	5.4	6.2	6.1
NPLs net of provisions to capital	27.8	25.1	27.2	67.9	60.7	63.9	62.3	52.3
<i>Of which: without ICS</i>	...	...	...	...	23.8	35.3	38.4	41.5
Earnings and profitability								
Average cost of borrowed funds	1.8	2.0	2.0	2.2	2.3	2.8	3.4	2.2
Average interest rate on loans	8.7	11.7	11.8	11.3	11.6	13.9	15.4	15.4
Average interest margin	6.7	9.7	9.8	9.2	9.3	11.1	12.0	13.2
After-tax return on average assets	1.8	1.8	1.6	1.6	1.6	1.4	1.3	1.5
After-tax return on average equity	22.1	17.6	15.8	14.6	15.3	13.0	16.0	15.4
Noninterest expenses/net banking income	48.9	48.7	47.9	49.4	50.7	51.3	60.3	56.7
Salaries and wages/net banking income	21.8	21.5	21.2	21.7	22.2	21.1	23.0	24.8
Liquidity								
Liquid assets to total assets	...	...	...	...	...	...	31.7	38.3
Liquid assets to total deposits	...	...	...	...	...	...	49.8	51.2
Total deposits to total liabilities	82.0	79.6	78.3	75.8	73.6	70.3	74.9	74.9

Source: BCEAO.

Table 7. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/
(CFAF billions, unless otherwise specified)

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

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

2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

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

Table 8. Quantitative Assessment Criteria and Indicative Targets for 2011-12 1/
(CFAF billions, unless otherwise specified)

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

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

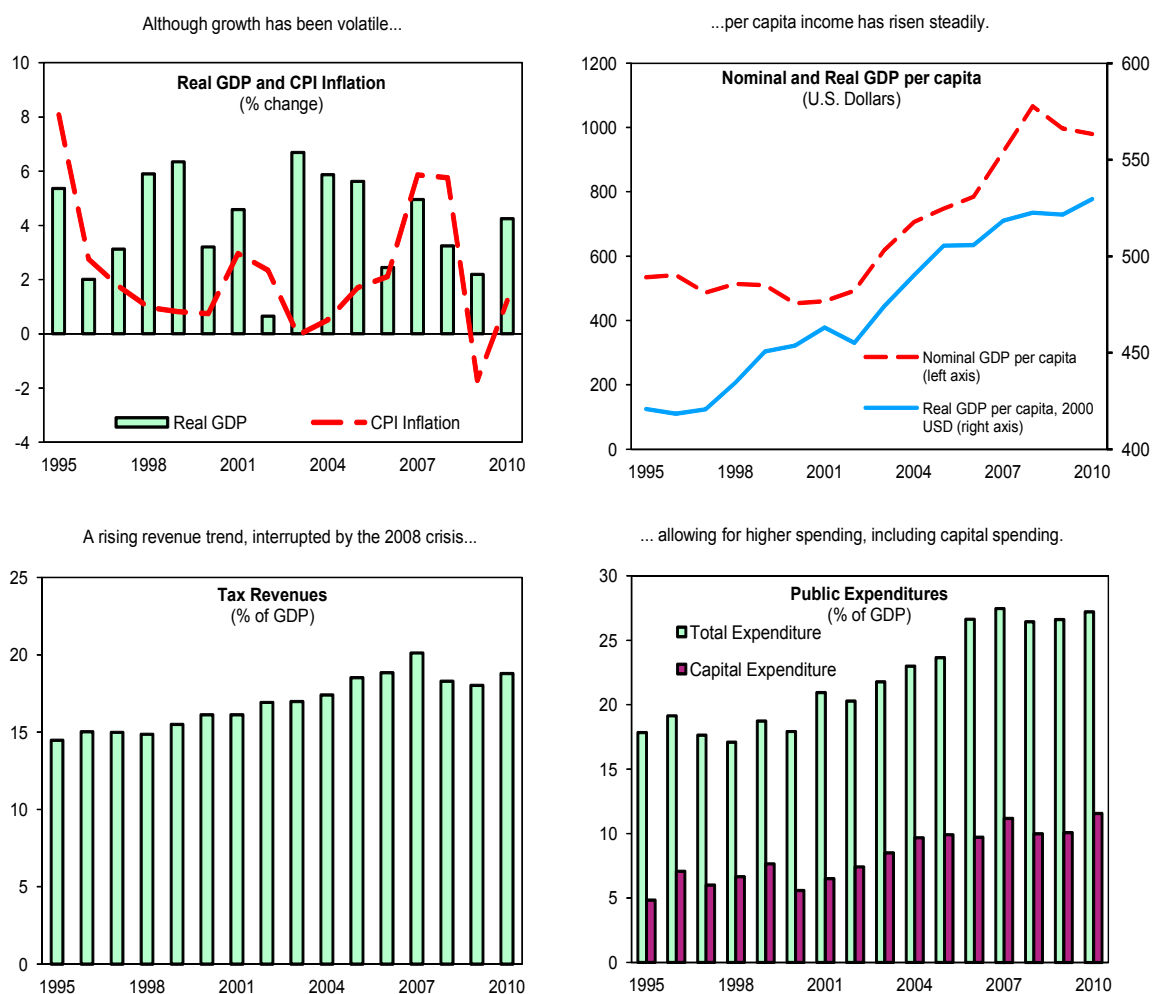
2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

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

Figure 1. Senegal: Historical Perspective, 1995–2010



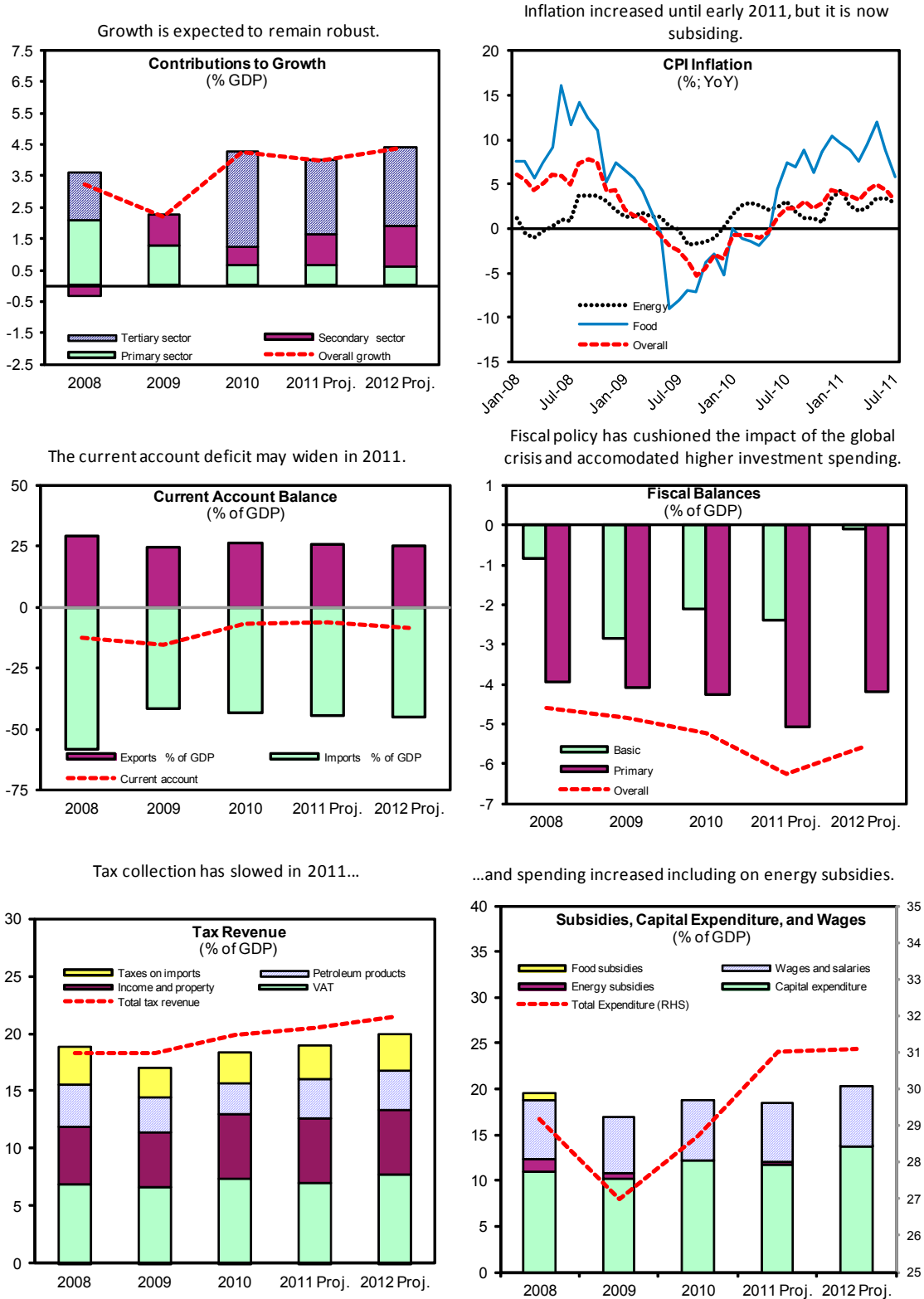
Progress has been made toward the Millennium Development Goals.

Millennium Development Goal	1990	1995	2000	2005	2009
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	56
Total enrollment, primary (% net)	45	50	58	72	75
Ratio of female to male primary enrollment (%)	72	76	86	96	104
Mortality rate, infant (per 1,000 live births)	70	68	63	56	51
Mortality rate, under-5 (per 1,000)	139	134	119	95	79
Births attended by skilled health staff (% of total)	..	47	60	52	..
Prevalence of HIV, total (% of population ages 15-49)	0.2	0.4	0.6	0.8	0.9
Improved water source (% of population with access)	61	63	65	68	69

Source: Millennium Development Goals Database, World Bank, 2011.

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

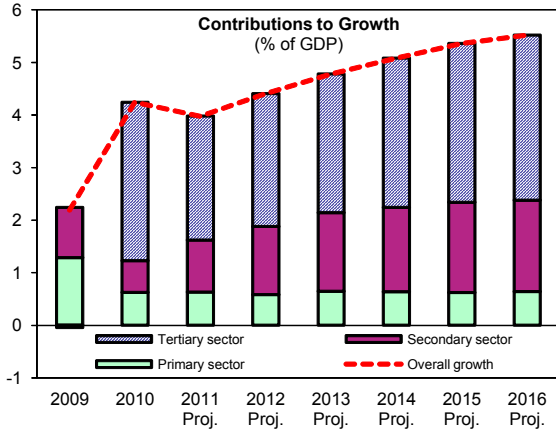
Figure 2. Senegal: Recent Macroeconomic Developments, 2008–2012



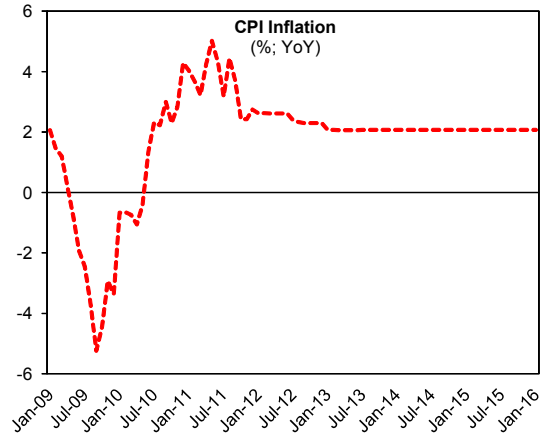
Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

Figure 3. Senegal: Medium-Term Outlook, 2009–16

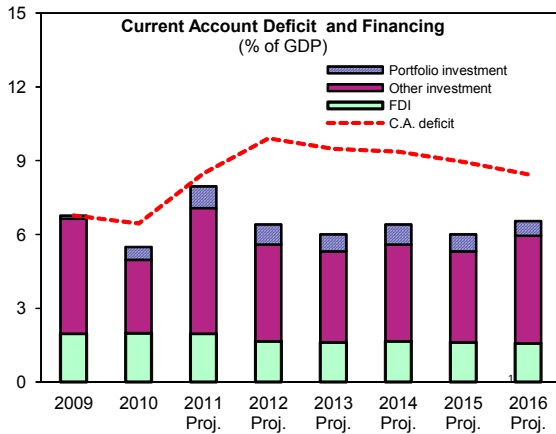
Output growth is projected to be driven by the services sector, and the energy and construction sectors related to large investment projects.



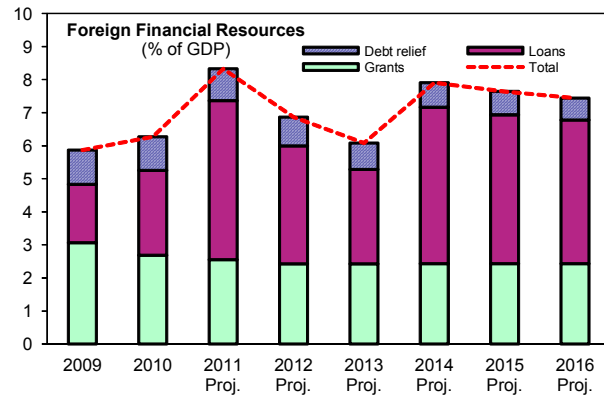
Inflation is projected to return to historical trends in the context of WAEMU membership and in the absence of renewed energy and food price pressures.



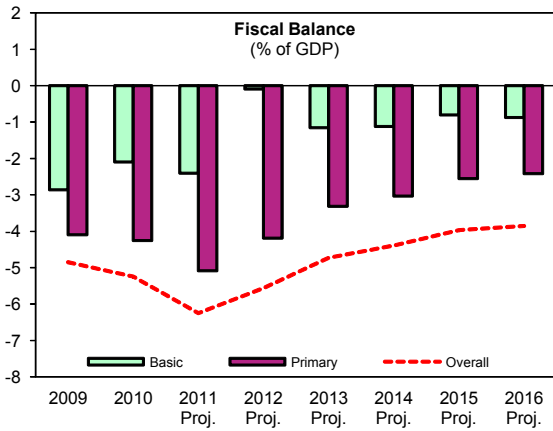
The current account deficit is projected to be financed in part by private flows ...



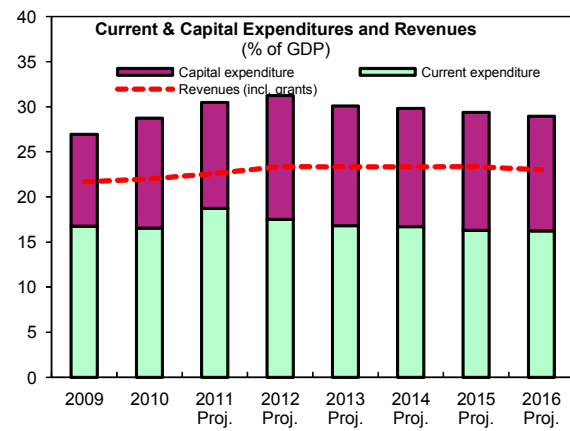
...while the economy will remain largely dependent on foreign financial resources.



The fiscal deficit will need to decline in the medium term...

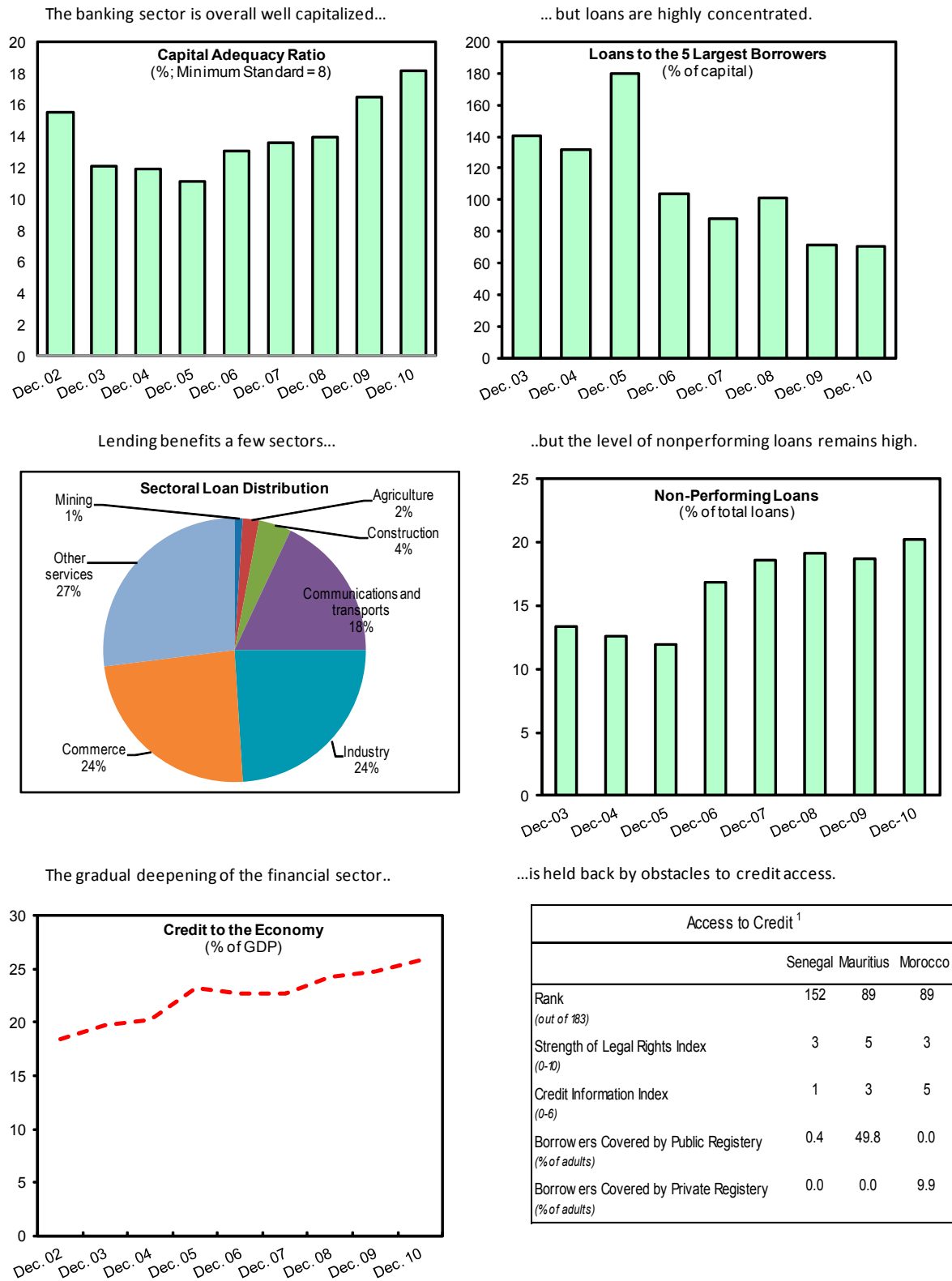


...through a combination of expenditure control and higher revenues.



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

Figure 4. Senegal: Financial Sector Issues



Source: Senegalese authorities and IMF staff calculations and estimates
¹ Source: Doing Business 2011

APPENDIX I**LETTER OF INTENT**

Dakar, Senegal
December 2, 2011

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

Dear Mrs. Lagarde:

1. The Government of Senegal requests completion of the second review of its 2010–2013 macroeconomic program supported by the Policy Support Instrument (PSI). The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010 and in the MEFP of May 19, 2011 pertaining to the first review. The attached MEFP takes stock of program performance at end-June 2011, sets out the macroeconomic objectives for the remainder of 2011 and 2012, and updates the structural reforms being carried out under the program. These policies and structural reforms are consistent with the new Documents of Economic and Social Policies (DPES, 2011–2015) recently discussed with the donor community and validated by Senegal's various social partners.
2. Implementation of the PSI-supported program over the period under review was overall satisfactory. All quantitative and indicative assessment criteria (ACs) for end-June 2011 were met, reflecting prudent management of public expenditure. Considerable progress has also been made with implementation of the structural reforms, despite slight delays in meeting some structural benchmarks.
3. Implementation of the emergency measures under the energy sector restructuring and recovery plan (the Plan TAKKAL), with broad support from Senegal's development partners, has made it possible to reduce considerably power outages. However, the several months' delay in launching some ambitious projects suggests that some of the expenditure originally slated for 2011 will be executed in 2012. In order to protect these expenditure items while ensuring that the debt accumulation path is consistent with the program objectives, the government undertakes to reduce the overall fiscal deficit for 2011 to 6.2 percent of GDP (as compared to the 6.9 percent previously called for in the program) and to maintain the 2012 deficit target unchanged at 5.6 percent of GDP. The budgetary space thus created in 2011 will be used in 2012 if the financing and pace of execution of the expenditure associated with the public investment projects in the electricity and highway sectors so permit. The government undertakes to maintain a prudent expenditure management approach to ensure that these fiscal objectives of the program are met. It will redouble its efforts to recover a substantial proportion of the shortfall in tax receipts in the first six months of 2011. By end-November 2011, the government submitted to Parliament a supplementary budget for 2011 that

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

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

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

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

Sincerely yours,

/s/

Abdoulaye Diop

Minister of State

Minister of Economy and Finance

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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, December 2, 2011

I. INTRODUCTION

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

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

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

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

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

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

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

III. MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR THE REMAINDER OF 2011 AND FOR 2012

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

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

A. Macroeconomic context for 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) Preparation of a proposal for new legislation governing the VAT (*end-February 2012*);
- (ii) Preparation of a proposal for the reform of the personal income tax (*end-April 2012*);
- (iii) Definition of specific measures that will serve as the basis for revised taxation of the telecommunications sector and financial sector (*end-May 2012*);
- (iv) Preparation of a VAT reform proposal aimed at increasing its base and improving the refund system (*end-July 2012*);
- (v) Identification of the tax expenditures that will be repealed and establishment of a timetable for their elimination. Exemptions from the regular taxation system that the government will decide to retain will be incorporated into the code only after an assessment of their impact in terms of achieving their original objectives (*end-July 2012*). The next report on tax expenditures will also be submitted to Parliament at the same time as the draft budget law for 2013;
- (vi) Finalization of the new General Tax Code and its submission to Parliament (*end-September 2012, new structural benchmark*).

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

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

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

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

- (i) Computerize administrative and customs procedures by broadening the coverage of the GAINDE 2010 system to the entire national territory and interconnecting it with other IT systems (Treasury and Taxes);
- (ii) Simplify customs clearance procedures and reform economic regimes with a view to supporting business competitiveness;
- (iii) Develop an active information and targeting policy by operationalizing the National Customs Information Catalogue (FNID) and the customs-specific risk analysis system;
- (iv) Make the business and association registration number system (NINEA) mandatory for customs operations with effect from January 1, 2012 (new structural benchmark).

D. Strengthen public financial management and governance

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

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

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

- (i) Implementation of the action plan on recurrent expenditures has made it possible to conduct an exhaustive inventory of the central government's telephone lines and water subscription arrangements. A module has been developed by SIGFIP for the computerized management of such recurrent expenditures (water, electricity, telephone). For 2012, efforts will be focused on broadening the coverage of the electricity subscription plans and implementing the SIGFIP module on recurrent expenditure, together with harmonized management of the central administration's file (subscriptions, disconnections, etc.).
- (ii) Management of contractual personnel in education: for fiscal 2011, the proper coverage of needs has been ensured for new recruits. The process of integration into the civil service has thus been accelerated. Most measures recommended by the report of the Inspectorate-General of Finance are expected to be implemented in the months ahead with a view to improving the estimation of costs and their control in this area. They will call for greater collaboration between the ministries responsible for education, the civil service, and finance in order to ensure better monitoring of the newly recruited contractual employees, for example through the centralization of the information to improve oversight of staffing levels.
- (iii) With respect to scholarships, bringing them into the banking system beginning in April 2011 has made it possible to ensure timely payment through well established reconciliation procedures at both the administrative and banking levels, and the necessary transparency in the management of payments, as well as in the number of scholarship recipients. The pursuit of more transparent management of scholarships will continue in fiscal 2012.

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

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

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

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

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

E. Private sector development

a. Energy sector

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

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

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

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

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

b. Financial sector

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

- (i) With respect to the introduction of a regulatory framework for establishing private credit registries, a draft law has been prepared by an expert group and will be forwarded to the Secretary-General of the Government by December 2011 for discussion in the Council of Ministers.
- (ii) The draft law on financial leasing could be adopted during the current session of Parliament. Ultimately, the draft framework law to be proposed by the BCEAO and validated by the WAEMU Council of Ministers could be transposed into our domestic legal system to replace the national law.
- (iii) Finally, with regard to the restructuring of Poste Finance, the process of selecting the consulting firm to conduct the study has only just now been wound up. The results of the study are expected in February 2012, and will facilitate the government's selection of the option to pursue (creation of a lending institution or its integration into the postal service) and the preparation of an action plan and timetable.

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

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

c. Other factors improving the business climate and governance

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

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

1. The proposals for amending the law on the Court of Audit in order to improve its functionality and effectiveness in auditing the government's accounts were approved by the Council of Ministers and the draft law containing the amendments will be submitted to Parliament in December 2011.
2. CENTIF has published on its website the end-June statistics on cases of money laundering and the financing of terrorism, showing the number of suspicious cases received, the number of cases submitted to the Public Prosecutor's Office, the number of judicial prosecutions, and the number of convictions. This reporting will be continued on a semiannual basis.
3. The process of improving transparency in land transactions and publishing sales of government property to private parties is moving forward gradually. The first stages of computerizing real estate management, namely the scanning and restoration of land registries begun in 2008, is expected to be completed in 2013. For 2012, the main objective is to ensure the availability, accessibility, and reliability of the land data using more transparent procedures. The introduction of a new property information system will be based on: (a) consolidation of the modernization of the cadaster; (b) the creation of a computerized land registry; and (c) the computerization of government domain management including, on a priority basis, the inventory of government properties for preparation of the Summary Table of Government Properties. Beginning in 2012, the Minister of Economy and Finance will publish at

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

III. PROGRAM MONITORING

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

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

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

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

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

2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

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

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

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

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

2/ Cumulative since the beginning of the year.

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

4/ Monitored on a continuous basis.

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

Table 3 MEFP: Structural benchmarks, 2011-2012

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

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

ATTACHMENT II**TECHNICAL MEMORANDUM OF UNDERSTANDING****Dakar, December 2, 2011**

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

I. PROGRAM CONDITIONALITY

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

II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING**The Government**

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

Overall Fiscal Balance (Program Definition)**Definition**

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

Example

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

Adjustment

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

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

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

Reporting requirements

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

Social Expenditure**Definition**

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

Reporting requirements

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

Budgetary Float

Definition

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

Reporting requirements

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

Spending Undertaken Outside Simplified and Normal Procedures

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

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

Government External Payments Arrears

Definition

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

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

Reporting requirements

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

Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

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

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

considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

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

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

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

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

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

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

23. Special provisions:

- a) The assessment criteria do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the PSI; (ii) debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport; and (iii) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.
- b) A total ceiling of US\$500 million applies over the period 2011–13 for nonconcessional external debt financing tied to the highway extension Diamniadio-International Airport Blaise Diagne/Thiès/Mbour or investments in the energy sector. The nonconcessional funds obtained in this way will be deposited in a special account from which only such highway extension payments and energy sector investments provided in Plan Takkal will be made. Following the issuance of a US\$500 million Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2011-13 is US\$ 200 million (equivalent to the amount of the 2009 bonds actually redeemed or exchanged in 2011).
- c) A separate ceiling equivalent to CFAF 44 billion in 2011 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

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

Public Sector Contracts Signed by Single Tender

Definition

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

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

Reporting requirements

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

III. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

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

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

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

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

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

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

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

The provisional monthly balance of the Treasury accounts; and

Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues," between the consolidated Treasury accounts and the TOFE for "total

expenditure and net lending," and between the TOFE and the net government position (NGP), on a quarterly basis.

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

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

29. The central bank will transmit to Fund staff:

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

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

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

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

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

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

SENEGAL

**Second Review Under the Policy Support Instrument and Request for
Modification of Assessment Criteria
Informational Annex**

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

Approved by Roger Nord and Thomas Dorsey

December 2, 2011

- **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 136.25 million (85.28 percent of quota) at end-October 2011.
- **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 October 31, 2011)

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	159.99	98.88
Reserve Position	1.82	1.13

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	154.80	100.00
Holdings	130.23	84.13

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ESF Arrangements	121.35	75.00
ECF Arrangements	14.90	9.21

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved</u> (SDR Million)	<u>Amount Drawn</u> (SDR Million)
ESF	Dec 19, 2008	Jun 10, 2010	121.35	121.35
ECF ^{1/}	Apr 28, 2003	Apr 27, 2006	24.27	24.27
ECF ^{1/}	Apr 20, 1998	Apr 19, 2002	107.01	96.47

^{1/} Formerly PRGF.

VI. Projected Payments to Fund^{2/}
(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2011</u>	<u>Forthcoming</u>			<u>2015</u>
		<u>2012</u>	<u>2013</u>	<u>2014</u>	
Principal		3.47	3.47	11.56	24.15
Charges/Interest	0.02	0.41	0.40	0.39	0.35
Total	0.02	3.88	3.87	11.95	24.51

^{2/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	<u>Enhanced Framework</u>
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		
<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
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 a common central bank of the countries of the West African Economic and Monetary Union (WAEMU), which includes Senegal. 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 needed nonetheless to 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 Institutional Reform of the WAMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. 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 Microfinance	Upgrading of information systems; techniques of external debt management Initiate work with BCEAO and donors
2004	Public expenditure management Debt management and financial markets Public expenditure management Debt management and financial markets	Workshop Evaluation of software for improving debt management; workshop on AML/CFT Decentralization; evaluation of TA needs Assessing need for capacity improvement
2005	Macroeconomic statistics Microfinance	Making fiscal data conform to WAEMU and other international norms Inspection and control; workshop on good governance; training of government supervisory personnel

Year	Area	Focus
2006	Customs administration Tax administration Macroeconomic statistics National accounts Microfinance	Software risks Reforms and TA needs Evaluating implementation of prior TA and future needs Work program for improvement and statistical action plan Supervision
2007	Customs administration Tax administration Debt management and financial markets Macroeconomic statistics National accounts Microfinance	Risk analysis and control Modernization Assessing TA needs; regional workshop on external deb statistics Public finance statistics Institutional sectors and quarterly national accounts; regional workshop on government accounts Supervision
2008	Debt management and financial markets National accounts Microfinance	DSA workshop Institutional sector and quarterly national accounts Supervision and organization
2009	National accounts Tax administration Debt management Microfinance Macroeconomic and financial statistics	Quarterly national accounts (QNA) Status of the reform and scope for further TA Strengthening public debt management Strengthening microfinance supervision Enhancing production and dissemination of public finances statistics
2010	Debt management National accounts Customs administration Tax administration Customs administration	Strengthening public debt management Quarterly national accounts (QNA) Follow-up mission Tax administration modernization Follow-up mission
2011	National accounts	Quarterly national accounts (QNA)

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
	Dec. 2010	Staff	Public financial management and accounting (state, PEs, agencies)
	January 2011	FAD Expert (long-term)	Public financial management and accounting
January 2011	FAD Expert (long-term)	Tax administration (IT procedures)	
May 2011	FAD Expert	Public financial management	
June 2011	AFRITAC	Tax administration	
Sept. 2011	Staff /Expert	Revenue administration	
Monetary and Capital Markets	Sept. 2006	Staff	Bank supervision and regulation
	Sept.2010	Staff	Needs assessment
	Jan.-Feb. 2011	Staff/ Expert/World Bank	Medium-Term Debt Strategy (MDTS)
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

Department	Date	Form	Purpose
	December 2002	AFRISTAT	data under GDDS West Africa project. 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.
	March 2006	Staff	Real sector statistics
	March 2006	Staff	Government finance statistics
	Nov. 2008	Staff	SDDS assessment
	April 2009	Staff	Government finance statistics
	Nov. 2011	Staff	Monetary and financial 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's Inter-Governmental Action Group Against Money Laundering in West Africa (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 a score of 12 Non-Compliant and 16 Partially Compliant ratings out of the 40+9 FATF AML/CFT Recommendations. GIABA's First Follow Up Report of 2009 on the implementation of the recommendations contained in the Mutual Evaluation Report mentions that Senegal's adoption of Uniform Law No. 2009-16 of March 2, 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 - PEPs). It also notes that legal provisions taken by Senegal in order to prevent the abuse of new technologies, namely the adoption of Law No. 2008-11 of January 25, 2008 on cyber criminality, enable the country to adapt its criminal system and subsequent procedures to crimes related to new information and communication technologies. Senegal joined the Egmont Group of Financial Intelligence Units in May 2009. Since end-June 2011, the FIU (CENTIF) publishes on its website statistics on suspicious transaction reports cases received, the number of cases transmitted to the judiciary as well as the number of convictions. The GIABA Secretariat concludes that Senegal deserves encouragement for its endeavor to reinforce its AML/CFT scheme and recommends, at this juncture, to maintain Senegal within the regular follow-up process, pending the results of measures taken and the adoption of new measures aimed at amending the above-mentioned scheme. The discussion of Senegal's Third Follow-Up Report was postponed until May 2012 to give the authorities the opportunity to provide more detailed information on the progress made in addressing the remaining deficiencies.

**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 Second Review of PSI	September 2011	December 2011 (Board)
	Technical Assistance Revenue administration Tax policy review Public fin. management	July 2011 October 2011 May, July, Sept., 2011 January 2012	
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Energy sector reform support project, including options for the restructuring of SENELEC	..	December 2011 (Board)
Bank request to Fund (with summary justification)	...	...	...
C. Agreement on joint products and missions			
Joint products	JSAN		April 2012

STATISTICAL ISSUES

Senegal – Statistical Issues Appendix

As of November 15, 2011

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. A STA TA mission will visit Dakar during November 15-28, 2011 to assist the BCEAO National agency in the migration of MFS to the standardized report form (SRF) framework. The mission will be undertaken as a pilot within the context of a multi-annual project for improving the relevance and timeliness of MFS compiled by the regional central bank.

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 May 15, 2011)

	Latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality Accuracy and reliability ⁹
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	9/2011	11/2011	M	M	M		
Reserve/Base Money	9/2011	11/2011	M	M	M	LO, LO, O, O	LO, O, O, LO
Broad Money	9/2011	11/2011	M	M	M		
Central Bank Balance Sheet	9/2011	11/2011	M	M	M		
Consolidated Balance Sheet of the Banking System	9/2011	11/2011	M	M	M		
Interest Rates ²	6/2011	4/2011	M	M	M		
Consumer Price Index	9/2011	4/2011	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA					
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	6/2011	9/2011	M	M	M	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt ^{5/11}	2010	3/2011					
External Current Account Balance ^{10/11}	2010	3/2011	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services ^{10/11}	2010	3/2011	A	A	A		
GDP/GNP ^{10/11}	2010	3/2011	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt ¹¹	2010	3/2011	A	I	A		
International Investment Position ^{6/}	2010	3/2011	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.



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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review Under the Policy Support Instrument for Senegal

The Executive Board of the International Monetary Fund (IMF) has completed the second review under the three-year Policy Support Instrument (PSI) for Senegal.¹ The Board's decision was taken on a lapse of time basis.²

Senegal's economy has remained resilient to the global economic turmoil. Growth is expected to dip slightly to 4 percent in 2011 because of power outages in the first half of 2011. In 2012, the restoration of sufficient electricity provision, together with large energy and road infrastructure spending, should boost growth to 4.4 percent and help make up for a less favorable international environment. Inflation rose in early 2011 reflecting increasing international food and petroleum prices, but this trend reversed in the second half of the year. Year-on-year inflation is now back below 3 percent, and is expected to remain so next year. The prudent approach to expenditure management has fostered macroeconomic stability and helped keep the authorities' program on track, with all quantitative targets for end-June and end-September 2011 met. Good progress was made too with structural reforms aimed at strengthening public financial management, tax policy and administration, and debt management.

In line with the authorities' new Document of Economic and Social Policies for 2011-15, the 2012 economic program supported under the PSI will target critical bottlenecks in energy and infrastructure, which hinder growth and poverty reduction. The fiscal program will allow the authorities to scale up infrastructure investment, but requires keeping a prudent stance on the rest of the budget. In the medium term, the overall fiscal deficit will need to return to lower levels to ensure fiscal sustainability. Structural reforms in the energy sector will aim at ensuring ample, reliable, and affordable electricity supply through critical investments and the operational and financial restructuring of the electricity company; this should reduce the latter's losses, which weigh heavily on the budget. Other structural measures include a comprehensive tax reform, including adoption of a new tax code that should enter into force with the 2013 budget, and further reforms of public financial management, and tax and customs administration. To reap the full benefits of additional investment and unlock the economy's growth potential, the program also includes measures to improve the business climate, governance, and strengthen the financial sector.

The Executive Board approved Senegal's second PSI on December 3, 2010 (see [Press Release No. 10/469](#)) upon completion of the Senegal's first PSI (see [Press Release No. 08/334](#)).

¹ The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation 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. A country's performance under a PSI is reviewed bi-annually.

² The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.