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

June 5, 2009

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

## LETTER OF INTENT

Dakar, Senegal  
June 5, 2009

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, N.W.  
Washington, D.C., 20431

Dear Mr. Strauss-Kahn,

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the government of Senegal's macroeconomic and structural program under the country's three-year Policy Support Instrument (PSI), approved by the IMF Executive Board on November 2, 2007, and the Exogenous Shocks Facility (ESF) approved on December 19, 2008. Details of this program were set out in the initial MEFP of October 3, 2007 and in the MEFPs of May 30, 2008 and December 5, 2008. The attached MEFP builds on the previous Memoranda, with emphasis on measures and objectives for 2009.
2. The government requests the augmentation of the ESF from 30 to 75 percent of quota (SDR 121.35 million) and its extension from 12 to 18 months. Following the oil and food price shock in 2008, Senegal is being severely hit by the global economic crisis. The government is responding to the crisis through a wide range of measures geared at maintaining a prudent fiscal policy stance, preserving macroeconomic stability, and advancing structural reforms.
3. All except one quantitative assessment (performance) criteria for end-2008 and all quantitative indicative targets for end-March 2009 were met. Despite significant underspending, the basic fiscal balance ceiling could not be observed as a result of the sharp decline in tax revenue during the fourth quarter of 2008. The government has initiated corrective actions that should help prevent a recurrence in the future. As described in the attached MEFP, the government is pursuing an ambitious program of budget and tax administration reform and of strengthening tax compliance, including by companies in the energy sector. In light of these far-reaching structural measures and the circumstances of the nonobservance, the government requests a waiver for the missed criterion.

4. The government believes that the policies and measures set forth in the attached MEFP are sufficiently strong to achieve the objectives of the PSI program and ESF arrangement. It will promptly take any additional measures necessary for the achievement of the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

5. 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 Memorandum, and the related Staff Report.

Sincerely yours,

/s/

Mamadou Abdoulaye Sow  
Minister of Budget

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

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, June 5, 2009

### I. INTRODUCTION

1. **In an unfavorable external environment characterized by a serious global economic and financial crisis, the government remains determined to preserve macroeconomic stability, strengthen growth driven by the private sector in a sustainable way, and make rapid progress toward achieving the Millennium Development Goals (MDGs).** To that end, the government will implement its economic and financial program, which is based on prudent macroeconomic policies and structural reforms.
2. **The government has demonstrated a stringent and determined approach to overcoming its budget execution problems.** The extent of these problems was uncovered in mid-2008 thanks to program measures. Decisive progress was made in correcting payment delays to the private sector and implementing ambitious reforms to improve the efficiency and transparency of public financial management. In this context, the government firmly believes that rigorous implementation of the economic program supported under the Policy Support Instrument (PSI) and Exogenous Shocks Facility (ESF), as described in the Memorandum of Economic and Financial Policies (MEFP) of December 5, 2008, should make it possible to regain the confidence of the private sector and strengthen ties with the donor community. The present MEFP describes recent economic developments, program performance, and the specific measures and objectives envisaged for the remainder of 2009.

### II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

3. **Macroeconomic performance in 2008 was less positive than expected.** This reflected an unfavorable international environment as well as domestic factors.
  - (a) *Real GDP growth declined sharply, from 4.7 percent in 2007 to only 2.5 percent in 2008.* The robust performance of the primary sector was due to a more active agricultural policy and favorable rainfall. The secondary sector registered a negative growth rate as a result of the delayed recovery of Industries Chimiques du Sénégal (ICS) and the negative effects of the government's payment delays to the private sector. The tertiary sector, a traditional driving force of the Senegalese economy, also registered poorer results with a growth rate of 3.5 percent, down 3.5 percentage points from 2007;
  - (b) *Consumer prices increased 5.8 percent on average.* Inflationary pressures, however, declined towards the end of the year as a result of the drop in oil and food prices;

(c) *The external current account deficit amounted to 12.3 percent of GDP. This represents a deterioration of 0.5 percent of GDP relative to 2007, primarily as a result of the increase in oil and food prices for the year as a whole.*

**4. All except one quantitative program criteria for end-2008 were met, and all indicative targets for end-March 2009 were observed.**

(a) At the close of the complementary period at end-February 2009, the budgetary float for the 2008 fiscal year had been reduced to CFAF 66 billion, against a program ceiling of CFAF 92 billion. At end-March 2009, the budgetary float amounted to CFAF 65 billion, below the ceiling of CFAF 80 billion;

(b) The government did not accumulate any external arrears;

(c) It did not contract or guarantee any nonconcessional borrowing since the second PSI review;

(d) It has not approved any Treasury advances since end-September 2008, as it has executed budget expenditure according to the normal and simplified procedures;

(e) It reduced single-tender contracts to only 6 percent of all government procurement in the fourth quarter of 2008 and 14 percent in the first quarter of 2009 (compared to a program ceiling of 20 percent);

(f) However, the basic fiscal balance ceiling could not be observed as a result of a sharp decline in budget revenue during the fourth quarter of 2008. The basic fiscal deficit amounted to CFAF 50 billion, compared to a program ceiling of CFAF 21 billion. Preliminary data indicate that the basic fiscal balance indicative target for end-March 2009 was observed.

**5. Significant progress was also made regarding structural reforms.** All structural assessment criteria were met. Delays, however, were observed in the completion of two audits that are structural benchmarks, as a result of the need to use time-consuming bidding procedures and obtain financing.

(a) A decree was adopted establishing a timetable and method for budget preparation (structural assessment criterion). The new procedures will be applied for the first time in the preparation of the 2010 budget;

(b) The system for reopening and carrying-over budgetary appropriations, which was excessively complex and overused, was redefined and simplified by decree (structural assessment criterion);

(c) The 2008 budget and accounting year was closed by the regulatory deadline and the budget execution data residing in the integrated expenditure tracking system (SIGFIP) were

frozen and published by end-April 2009 (structural assessment criterion). This was made possible by respecting the end of the complementary period, i.e., no payment orders were issued and therefore no payment orders were accepted by the Treasury after February 28, 2009;

(d) An implementation decree for the new law on microfinance institutions was adopted (structural benchmark). This decree should strengthen financial intermediation and lead to better access to credit;

(e) To protect the integrity and performance of the tax system, memoranda of understanding were adopted to specify the respective rights and duties of the investment promotion agency (APIX), the Directorate General of Taxes and Property (DGID) and the Directorate General of Customs (DGD), regarding the management of the Dakar Integrated Special Economic Zone (DISEZ) (structural benchmark);

(f) Following the audit by the Financial Audit Inspectorate (IGF), an independent external audit is analyzing the conditions under which extrabudgetary expenditure had been undertaken (structural benchmark). The external auditor's progress report identified the total amount of such commitments at CFAF 73 billion, broadly in line with earlier estimates. The completion of the audit has been delayed and the audit is expected to be completed in June 2009 as the bidding procedures to select an auditing company required more time than foreseen;

(g) For the same reasons, as well as on account of a delay in mobilizing financing from the World Bank, the first audit report of the procurement regulatory agency (ARMP) has not yet been completed (structural benchmark), but the audit was launched. The preliminary reports from the selected firms are expected in September 2009. The reports will help enhance budget transparency and governance and assist in assessing the operation of the new government procurement framework. The decree to determine the modalities of recruitment, status and powers of the ARMP investigative unit agents was adopted in late May 2009, and the first quarterly surveys have been launched.

### III. MACROECONOMIC POLICIES FOR 2009–10

6. **Despite a highly unfavorable international context, economic activity can be expected to increase slightly in 2009, with a growth rate of about 3 percent.** The projection assumes that the problem of government payment delays will be resolved and ICS output will accelerate. A low level of inflation (0.8 percent) is expected owing to the decline in oil and food prices, while the current account deficit is projected at 11.8 percent of GDP.

7. **These projections are subject to substantial risks.** Unfavorable developments in the international environment could negatively affect these projections. Declines in

remittances, official aid, exports, and/or foreign direct investment would have a negative impact on economic growth.

#### **A. Elimination of Payment Delays**

8. **The government respected its commitment to resolve the problem of domestic unpaid bills.** It decisively eliminated most payment delays in the regular expenditure chain through mobilization of resources in the West African Economic and Monetary Union (WAEMU) financial market, support from donors, and prudent and rigorous public expenditure management. At end-March 2009, the budgetary float was CFAF 65 billion, CFAF 15 billion below the program ceiling. The budgetary float will continue to decline to CFAF 45 billion by end-June 2009 (revised quantitative assessment (performance) criterion). This will make it possible to normalize relations with government suppliers once and for all, improve the business climate in key economic sectors such as construction, and lay the foundation for higher economic growth and protecting financial sector soundness.

#### **B. Fiscal Policy Stance**

9. **The government will maintain a prudent fiscal policy to preserve debt sustainability, limit demand pressures, and avoid crowding out the private sector.** In this connection, the government reiterates its commitment to limit the overall fiscal deficit to 4 percent of GDP over the medium term.

10. **Fiscal policy in 2009 will strike a balance between the needs to sustain economic activity in an unfavorable international context and constrain expenditure so as to stay within available resources and limit the risk of a new accumulation of payment delays to the private sector.** To this end, the government will limit the overall fiscal deficit to 4½ percent of GDP in 2009, while compensating the expected shortfall in revenue relative to the initial budget law with proceeds from the privatization of Hôtel Méridien and a bank loan collateralized with shares of the telecommunications company Sonatel. The government will closely monitor economic conditions and their fiscal impact, particularly with respect to revenue collection. The targeted overall fiscal deficit for 2009 corresponds to a revised basic fiscal deficit of CFAF 60 billion at end-June 2009 and CFAF 119 billion at end-December 2009 (revised quantitative assessment (performance) criteria).

11. **In line with commitments in the previous Memorandum, the government has submitted a supplementary budget to Parliament (prior action).** It has the following objectives: (i) preserving the budgetary equilibrium given lower than programmed tax collections and based on the macroeconomic framework agreed with IMF staff; (ii) amending the budget to incorporate reopened and carried-forward appropriations from the 2008 budget; and (iii) changing investment priorities and include appropriations for the Dakar-Diamniadio toll highway (CFAF 55 billion), thus enabling the government to meet its commitments to the

private and development partners. The project's rate of return and its strategic importance as a prerequisite for the success of DISEZ and the new airport project (AIDB) made this reprioritization necessary.

12. **Budget execution will consider the composition of expenditure and protect social and capital outlays.** In the current unfavorable economic climate, it is essential to protect social expenditure to ensure more rapid progress towards the MDGs. Accordingly, this spending will be increased from 33 percent to 40 percent of total expenditure between now and 2010 (PRSP objective). Moreover, after a sharp decline in 2008 as a result of the fiscal adjustment to settle payment delays, public investment will increase by 0.4 percent of GDP over 2008 levels to 10.4 percent of GDP in 2009.

13. **To ensure debt sustainability, the government will continue to abide by the general principle of not contracting or guaranteeing external borrowing on nonconcessional terms.** To supplement resources from donors and the private partner, a loan of CFAF 80 billion earmarked for the Dakar-Diamniadio toll highway will be mobilized during 2009 (quantitative assessment (performance) criterion); the timing of financial market access will depend on international market developments. The government will consult with IMF staff well in advance regarding any other exceptions to this program criterion. In line with previous commitments, debt management will be strengthened and include the updating of the rolling two-year government issuance calendar on a quarterly basis or after each issuance, in cooperation with the Central Bank of West African States (BCEAO). The semi-annual public debt sustainability analysis will include a risk assessment for contingent liabilities arising from guarantees issued by the government to Public-Private Partnerships (PPPs) and operations of public enterprises.

#### IV. STRUCTURAL REFORMS

##### A. Budget Reforms

14. **The government is committed to pursuing its ambitious budget reforms to build on the substantial progress that has already been made.** These reforms, which are based on an overall fiscal reform program (specifically the IMF technical assistance report and the work of the budget support group of donors) are essential to enhance budget efficiency and transparency, and could also help protect macroeconomic stability. The following measures aim to meet these objectives.

15. **The government will limit expenditures that are not subject to firm spending limits (*crédit évaluatif*).** An improved estimation methodology will be developed for such spending and current services (*services votés*). This will help contain spending pressures, enhance public expenditure control, and maintain budgetary balance. Estimated appropriations will be limited to the categories listed in Article 11 of the organic law: debt

service, legal expenses and compensation deriving from court decisions, tax relief and repayments, and will not include, under any circumstances, other expenditures except (i) salaries and fringe benefits, (ii) taxes on externally-financed government procurement, and (iii) embassy leases. Thus, the special budget law annex stipulated by Article 11 of the organic law will only include these three expenditure categories.

**16. The presentation of the budget will be improved to make it more flexible and information more understandable and transparent by moving towards international best practices.** To that end, the following adjustments will be made to the budget documentation associated with the 2010 budget law to be submitted to Parliament by October 15, 2009 (structural benchmark):

- (a) In addition to the currently calculated fiscal deficit, the first part of the budget law will present the standard concept of the overall fiscal deficit (not including resources from loans and principal repayments), according to the standards of the *Government Finance Statistics Manual*;
- (b) Budget execution data for the past year and the first six months of the current year will be presented in detailed revenue and expenditure tables;
- (c) To increase flexibility in budget execution, as provided in Article 9 and 12 of the organic law, the budget will reserve five percent of total appropriations (excluding externally-financed capital expenditure and wages) in a contingency expenditure line (*dépenses imprévues ou accidentelles*) under shared costs (*charges communes*);
- (d) An annex required for Parliament's information and oversight will present budget execution and forecast data (on expenditure and revenue) for each agency, para-public sector enterprise, and any other public body receiving budgetary allocations of more than CFAF 5 billion. The government will also provide this information in future budget laws.

**17. To improve fiscal accounting, the government undertakes to enhance the SIGFIP system and expand its coverage of budget operations.**

- (a) SIGFIP will be audited to improve its efficiency, enhance the reliability of real-time data, expand its coverage of budget operations, and facilitate production of the government financial operations table (TOFE). To this end, the government has launched a bidding procedure for an external audit. This audit, which will be completed by end-September 2009, will focus on an examination of the budget execution database and the production of output tables covering several years, based on the terms of reference agreed with IMF staff (structural benchmark);

(b) SIGFIP workstations will be installed in the General Administration and Supplies Directorate (DAGE) and the General Administration and Supplies Service (SAGE) in ministries and institutions so as to enhance the monitoring of budget execution.

18. **The government is committed to using SIGFIP and the ASTER accounting software as complementary information instruments to improve fiscal and accounting operations and make the production of the financial operations table (TOFE) more reliable.** The IMF will provide technical assistance for that purpose. The interface between SIGFIP and ASTER will strengthen the linkages between fiscal and accounting operations and facilitate preparation of the general account of the financial administration, thereby shortening the time required to prepare the final budget laws (*lois de règlement*). The government is aware that the SIGFIP-ASTER interface is an essential operation to reinforce the expenditure chain and undertakes to complete it, with as a prerequisite the rollout of the ASTER system at all accounting workstations. The ASTER fiscal accounting module will be operational from end-October 2009 (structural benchmark). The auxiliary expenditure accounting modules (CAD) and auxiliary revenue accounting modules (CAR) will be operational by end-2009. To press ahead with these reforms, a high-level information systems steering committee will be established within the Ministry of Finance.

19. **The external audit of extrabudgetary commitments supplemented the analysis of the IGF audit.** Based on the results of the external audit, the government will decide by end-July 2009 on the amounts it intends to (i) propose to Parliament for regularization in the 2010 budget and (ii) reject as invalid claims that will not be paid (structural benchmark). The government will also impose penalties on appropriations administrators who illegally created a liability for the government. Moreover, such appropriations administrators, who are liable for knowingly undertaking expenditure commitment and execution in excess of established appropriations, will be brought before the financial disciplinary chamber of the Audit Court.

## B. Tax Administration

20. **The excellent performance of the Senegalese tax system must be preserved.** The resolution of the government's payment delays and transfer of direct tax collection from the Treasury to the DGID can be expected to strengthen revenue collection. The government, however, is aware that, during crisis periods, the tax administration must intensify its efforts because enterprises and taxpayers may have difficulties paying their tax debts and the risk of tax evasion rises.

21. **The government will report the basis for, and current level of, tax expenditures by end-September 2009** (structural benchmark). Indications are that exemptions and other forms of tax expenditure have accelerated substantially in recent years. The current stability and performance of the Senegalese tax system could be jeopardized if the way such measures are adopted and implemented is not evaluated. An assessment of tax expenditures aimed at

enhancing the fairness, performance, and integrity of the tax system would therefore be useful. The study, overseen by the tax administration, will be conducted in collaboration with the customs administration and economic forecasting and statistics agencies. The study's objective, to be specified in the terms of reference that will be agreed with IMF staff, will be to assess the financial cost of tax expenditures and any economic and/or social impact they may have. Based on the study, the 2010 budget will include a report highlighting key tax expenditures and indicate for each its public policy objectives, duration, and beneficiaries.

### C. Energy Sector

22. **The current energy sector reform aims to improve the security of the country's energy supply, conserve energy, and limit budgetary risks.** The government will apply the principle of market-based pricing and implement energy saving and efficiency measures. In support of this program, the government will:

- (a) Modify the electricity price structure every three months and adjust the institutional price-setting process. SENELEC will not obtain any compensation from the government for insufficient price adjustment;
- (b) Complete the recapitalization of SENELEC by end-June 2009. CFAF 7 billion has been appropriated for that purpose;
- (c) In light of SENELEC's substantial tax arrears in 2008, ensure that SENELEC's tax obligations are included in the company's financial equilibrium calculations and tax payments transferred regularly (at least quarterly) to the government;
- (d) In accordance with the government's energy sector reform program, carry out an unbundling of SENELEC's activities (production, transportation, and distribution) by end-October 2009 and offer equity stakes in SENELEC's subsidiaries and holding company to the private sector by end-March 2010. An investment bank will be selected as a consultant for these transactions by end-November 2009;
- (e) Eliminate the butane gas subsidy by end-June 2009. In the interim, butane gas prices will be adjusted so that the total subsidy is limited to CFAF 6.5 billion in 2009;
- (f) Transform the existing *Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP) into a *Fonds de Sécurisation des Approvisionnements en Produits Pétroliers* (FSAPP) that will exist for three years. This is to allow the full repayment of the remaining debt of CFAF 27 billion of the petroleum refinery (SAR) and to urgently finance, through the budget, CFAF 10 billion needed for logistics and other investments in SAR, and for investments in the supply of hydrocarbon products;
- (g) Use the FSIPP's financing mechanism for the FSAPP and strengthen its management, control and reporting aspects. In addition, the government is committed to adopt, by end-

October 2009, all the necessary provisions (legal, regulatory and/or administrative) to transfer the FSAPP collection from SAR to the DGID and ensure transparent monitoring and improved accounting. The DGID will exert control over the FSAPP, including with respect to the financial flows between other oil companies and SAR. To this end: (i) the FSAPP revenues related to imported finished petroleum products will be collected by the DGID directly from oil companies and deposited in a Treasury account; (ii) the FSAPP revenues related to refinery operations will be collected by SAR and transferred to the DGID, which will deposit the funds in a pledged Treasury account at the BCEAO; (iii) the FSAPP revenues collected on refinery operations will be used for investments in the petroleum sector and SAR; and (iv) any subsidy or transfer to SAR, or any strategic investment in the petroleum sector considered important by the government (such as strengthening SAR's refinery capacities, installing the sea line, etc.) will be transparently reflected in the state budget and be subject to government procurement rules (structural benchmark). SAR's reform will be carried out with support from donors and lenders.

#### **D. Private Sector Development**

**23. The government is determined to establish a business environment on par with international standards.** It undertakes to expedite reforms recommended by the Presidential Council on Investment (CPI) in November 2008 and incorporated in its monitoring committee's action plan. The government specifically agrees to achieve the following as soon as possible:

- (a) Improved efficiency in the commercial justice system, by providing courts with the resources required for the expeditious handling of economic disputes and through implementation of a dozen administrative measures already identified in connection with the start of a new high-level court;
- (b) Reduction of delays in the transfer of property rights as specified in office memoranda issued in April 2008, and reduction in the cost of such transfers;
- (c) Extension of possibilities to renew fixed-term labor contracts;
- (d) Adoption and effective implementation of the circular from the Prime Minister reducing the time it takes to issue construction permits and hook up water, sanitation, electricity, and telephones;
- (e) Improving the Doing Business cross-border trade indicator by: (i) completing the 24-hour operation of port services initiated in January 2008; (ii) liberalizing container transport; (iii) fully deploying the portable customs computer system (GAINDE) and its interconnection with the Orbus system; (iv) testing and rolling out telepayment operations with the Corus system; and (v) having customs declarations filed prior to a ship's arrival through the electronic acceptance of manifests;

(f) Holding the second national forum on credit by end-2009, followed by implementation of its recommendations according to a timetable to be agreed.

### **E. Financial Sector Reforms**

24. **The government recognizes that the financial sector was under substantial pressure at end-2008.** The government's payment delays to the private sector worsened banks' credit risk by impeding business activity and affected liquidity in the banking sector. Even though these tensions have subsided, the financial sector could sustain the negative effects of the world financial crisis in the medium term.

25. **Against this backdrop, the authorities are determined to make every effort to maintain stability in the financial sector.** In particular, they undertake to:

(a) Continue to monitor closely, as part of their normal duties, solvency and liquidity in the banking sector, including by analyzing bank assets and liabilities, the nature and concentration of financing sources, liquidity relationships with parent companies or establishments from the same group abroad, and the overall liquidity situation. They will also intensify exchanges between themselves, the WAEMU authorities, and supervisors from foreign institutions with a presence in Senegal;

(b) Focus on macro-financial risks arising from financing linkages between the government, private sector, and financial system. The BCEAO will intensify consultations with the government and banks to anticipate financing and cash requirements of the government and private sector. In this context, the government will regularly update its projected recourse to the financial sector, as indicated above, and the BCEAO will continue to provide adequate liquidity to the banking system to support the sound financing of the economy;

(c) Closely monitor, in consultation with the central bank, the enactment of new minimum capital rules by end-2010;

(d) Further strengthen capacity and resources of the directorate in charge of regulation and supervision of microfinance institutions within the Ministry of Economy and Finance;

(e) Accelerate implementation of the recommendations of the Financial Sector Assessment Program, jointly with the authorities of the Union.

26. **Finally, the government undertakes to improve the institutional, legal, and operational environment for private sector financing.** This will enhance household access to credit and financial intermediation and include:

- (a) Implementation of an action plan to increase the rate of bank penetration to 20 percent by end-2012 through, *inter alia*, promotion of noncash means of payment by the government;
- (b) Establishment of a supportive legal framework for credit information bureaus;
- (c) Finalization of legislation governing venture capital to promote start-up and growth financing for innovative small- and medium-sized enterprises.

## **V. PROGRAM MONITORING**

27. Quantitative assessment (performance) criteria for end-June 2009 and end-December 2009 and quantitative indicators for end-September 2009 were set to monitor program implementation in 2009 (see Table 1 in the technical memorandum of understanding (TMU) below). The government and IMF staff also agreed on the prior actions and structural benchmarks listed in Table 2 of the TMU. The fourth PSI review and second ESF review are to take place by end-December 2009, and the fifth PSI review and the third ESF review are to take place by end-June 2010.

**ATTACHMENT II****TECHNICAL MEMORANDUM OF UNDERSTANDING****Dakar, June 5, 2009**

1. This technical memorandum of understanding (TMU) defines the quantitative assessment (performance) 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 2009. The quantitative program targets will also serve as performance criteria under the ESF. The TMU also establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

**I. PROGRAM CONDITIONALITY**

2. The quantitative assessment (performance) criteria for June 30, 2009 and December 31, 2009 and the quantitative indicative targets for September 30, 2009, are shown in Table 1. The prior actions and structural benchmarks established under the program are presented in Table 2.

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

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

**B. Basic Fiscal Balance (Program Definition)****Definition**

4. The basic fiscal balance (program definition) is the difference between the government's budgetary revenue and total expenditure and net lending, excluding externally-financed capital expenditure (financed by donors), drawings on on-lent loans (except on-lent loans to the energy sector financed through donor budget support), and expenditure funded with HIPC- and MDRI-related resources. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*). The assessment (performance) criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

**Example**

5. The floor for the basic balance (program definition) as at June 30, 2009 is minus CFAF 60 billion. It is calculated as the difference between budgetary revenue (CFAF 601 billion) and total expenditure and net lending (CFAF 823 billion), excluding externally financed capital expenditure (CFAF 124 billion), drawings on on-lent loans (CFAF 5 billion), and expenditure funded with HIPC- and MDRI-related resources (CFAF 33 billion).

**Reporting requirements**

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

**C. Budgetary Float****Definition**

7. 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 (performance) criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

### **Reporting requirements**

8. The authorities will report 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 and treasury advances (separating regularized and nonregularized), which will be provided in a separate table. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

### **D. Spending Undertaken Outside of Simplified and Normal Procedures**

9. This criterion is applied on a continuous basis to any procedure other than simplified and normal procedures to execute spending, including in particular Treasury advances. It only excludes spending undertaken on the basis of an advance decree for absolute urgency and need in the national interest, based on Article 12 of the Organic Budget Law. Such spending requires signatures by the President and Prime Minister. The criterion is monitored effective the time of the second PSI review.

10. The authorities will report to Fund staff on a monthly basis and with a maximum delay of 30 days any such procedure, together with the SIGFIP table defined in paragraph 8.

### **E. Government External Payment Arrears**

#### **Definition**

11. External payment 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 13 is applicable here. The assessment (performance) criterion on external payment arrears will be monitored on a continuous basis.

#### **Reporting requirements**

12. The authorities will report to Fund staff any accumulation in external payment arrears as soon as the due date is passed.

## **F. Contracting or Guaranteeing of New Nonconcessional External Debt by the Government**

### **Definition**

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

- (i) CFAF debt contracted or guaranteed by the government with WAEMU residents;
- (ii) CFAF debt initially contracted or guaranteed by the government with WAEMU residents subsequently acquired by nonresidents;
- (iii) CFAF government or government-guaranteed debt where the agreement is between the government and a resident WAEMU entity and there is no ensuing contractual obligation between the government and a nonresident entity, regardless of whether the resident WAEMU entity resells the debt to a nonresident;
- (iv) debt rescheduling transactions of debt existing at the time of the approval of the PSI; and
- (v) external debt contracted by the airport project company (AIDB) to finance construction of the new Dakar Airport.

14. This criterion is measured on a cumulative basis since the approval of the second program review and applies continuously. The ceiling is raised to accommodate CFAF 80 billion to finance exclusively the Dakar-Diamniadio toll highway project. No adjuster will apply to this criterion.

15. For purposes of this assessment (performance) criterion, government is understood to include the government as defined in paragraph 3 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

16. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. For

debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

### **Reporting requirements**

17. 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.

## **G. Public Sector Contracts Signed by Single Tender**

### **Definition**

18. Public sector contracts are administrative contracts, drawn up and entered into by government entities 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 or award. The quarterly indicative target will apply to public sector contracts examined by the *Direction Centrale des Marchés Publics* (DCMP).

### **Reporting requirements**

19. 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 contracts signed by all ministries and agencies and the total value of all single-tender contracts signed by these ministries and agencies.

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

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

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

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

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury 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 Investment Directorate (DDI) on execution of investment programs;

- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts (*balances de compte*);
- The provisional balance of the Treasury accounts; and
- A reconciliation table between the fiscal reporting table (TOFE), the Treasury accounts (identifying the relevant accounts and amounts), the net government position (NGP), and the SIGFIP 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.

21. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on current nonwage noninterest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, 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.

22. The government will report to Fund staff:

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

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

MEFP Table 1. Quantitative Assessment Criteria (Performance Criteria) and Indicative Targets for 2009 1/  
(CFAF billions, unless otherwise specified)

	June 30, 2009		September 30, 2009	December 31, 2009
	Existing		Proposed	
Assessment (performance) criteria				
Floor on the basic fiscal balance 2/	5	-60	-90	-119
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	80 5/	80 5/	80 5/	80 5/
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0	0
Ceiling on the amount of the float ( <i>depenses liquidees non payees par le Tresor</i> ) 6/	30	45	45	45
Indicative target				
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	20	20	20

1/ Indicative targets for September 2009, except for the assessment (performance) criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ Excluding government or government-guaranteed CFAF borrowing from financial institutions within the WAEMU and external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

4/ Monitored on a continuous basis.

5/ Cumulative since approval of second PSI review. The amount of up to CFAF 80 billion is to finance exclusively the Dakar-Diamniadio toll highway project.

6/ Defined as all expenditure for which a bill has been received and recognized (*dépense liquidée*) but not yet paid by the Treasury.

**TABLE 2. STRUCTURAL CONDITIONALITY, June 2009-December 2009**

Policy Measures	Implementation Date	Macroeconomic Rationale
<b>Prior action</b>		
1. Submit a supplementary budget to Parliament, as described in paragraph 11 of the MEFP.	June 5, 2009	Ensure that fiscal policy is consistent with macroeconomic conditions.
<b>Structural benchmarks</b>		
1. Decide whether extrabudgetary expenditure should be (i) proposed to Parliament for regularization in the 2010 budget; or (ii) rejected as invalid claims that will not be paid, as described in paragraph 19 of the MEFP.	July 31, 2009	Complete the normalization of the government's financial relations with the private sector and restore full integrity to the fiscal system.
2. Complete a study on the basis for, and current level of, tax expenditures, as described in paragraph 21 of the MEFP.	September 30, 2009	Protect government revenue and increase fairness, performance, and integrity of the tax system.
3. Complete an external audit of SIGFIP focused on the budget execution database and production of output tables, as described in paragraph 17 of the MEFP.	September 30, 2009	Enhance efficiency of the budget monitoring system, increase reliability of real-time data production, expand coverage of budget operations, and facilitate TOFE production.
4. Improve flexibility and presentation of the budget, as described in paragraph 16 of the MEFP.	October 15, 2009	Enhance fiscal transparency and public expenditure control.
5. Make the ASTER budget accounting module operational, as described in paragraph 18 of the MEFP.	October 31, 2009	Improve the accounting system for budget and accounting purposes, and make budget data and TOFE production more reliable.
6. Adopt provisions to transfer FSAPP tax collection to the DGID, as described in paragraph 22 of the MEFP.	October 31, 2009	Increase transparency and yield of government revenue.