International Monetary Fund

Senegal and the IMF

Press Release:
IMF Completes Third and Final Review Under Senegal's ESF Arrangement, Approves US$47.7 Million Disbursement and Completes Fifth Review Under PSI
May 24, 2010

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

May 7, 2010

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
May 7, 2010

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

Dear Mr. Strauss-Kahn:

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments in Senegal and implementation of the government of Senegal's macroeconomic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on November 2, 2007, and the Exogenous Shocks Facility (ESF) arrangement, approved on December 19, 2008 and augmented and extended on June 19, 2009. The attached MEFP builds on previous MEFPs and sets out the policies the government intends to implement, with emphasis on measures and objectives for the remainder of 2010. The ESF arrangement will expire on June 18, 2010 and the PSI on November 1, 2010.

2. Most of the quantitative assessment/performance criteria for end-December 2009 and all quantitative indicative targets for end-March 2010 were met. The target for the basic fiscal balance was exceeded by 0.8 percent of GDP, which is explained in part by revenues that were lower than projected at the time of the last review and by increased spending to meet urgent needs. In the future, the government will endeavor to offset higher-than-budgeted spending by restricting nonpriority expenditures. It is requesting a waiver for exceeding the ceiling on the basic fiscal deficit. The government is determined to pursue sound policies and to bring the overall fiscal deficit down to 4 percent of GDP in the medium term.

3. Structural reforms, which are focused on fiscal management, governance, and transparency, and the preparation of an action plan for the financial sector, have generally progressed in line with the program despite some delays. Given the complexity of the task, the development of procedures for the regularization of extrabudgetary commitments has taken more time than expected. On the other hand, in the interim the government has paid some agency debt and some extrabudgetary spending has already been incorporated in the budget. The government will present a supplementary budget to Parliament by May 15, 2010 that will contain specific line items to settle these payments. Debts that do not require a budgetary allocation will be presented in an annex to the law. As indicated in the attached MEFP, the authorities are continuing to pursue an ambitious

program of budgetary and financial reforms, as well as governance and energy sector reforms.

4. In light of overall program performance and based on the policies set forth in the attached MEFP, the government requests completion of the fifth review under the PSI and the third and final review under the ESF arrangement with a disbursement in the amount of SDR 32.36 million.

5. The government believes that the policies and measures set forth in the attached MEFP are sufficient to achieve the objectives of the PSI-supported program during the remaining months. 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 consultation—before adopting any such measures or changes to the policies described in the attached MEFP. The government will provide the IMF with such information as it may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the sixth and final review under the PSI will be completed by end-October, 2010, as the instrument will expire on November 1, 2010. During the next review mission, the government intends to examine with the IMF staff the possibility of another program.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which also includes the Article IV consultation report and the Debt Sustainability Analysis.

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, May 7, 2010

I. INTRODUCTION

1. **This memorandum updates Senegal's economic program under the three-year Policy Support Instrument (PSI) for the period 2007–2010 and the Exogenous Shocks Facility (ESF) arrangement approved in December 2008.**[1] The program supported under the PSI focuses on: (i) following a prudent fiscal policy and avoiding a recurrence of payment delays; (ii) strengthening governance and transparency; (iii) promoting private sector activity; and (iv) enhancing the contribution of the financial sector to the economy. This Memorandum describes recent economic developments and program implementation, and discusses the economic outlook for the rest of 2010 and the government's commitments regarding ongoing macroeconomic and structural reforms.

2. **The government remains committed to meeting the objectives of the program supported by the PSI.** It aims to preserve macroeconomic stability, foster good fiscal management and governance, strengthen growth driven by the private sector, and make rapid progress toward achieving the Millennium Development Goals (MDGs). In collaboration with the IMF, the government has demonstrated that it is determined to overcome the budget execution problems encountered in 2008. Decisive improvements were made in correcting payment delays to the private sector and implementing ambitious reforms to improve the efficiency and transparency of fiscal management. The settlement of extrabudgetary expenditures and public institution and agency debt still outstanding in 2010 and 2011 should make it possible to fully normalize relations with the private sector. This will also make it possible to broaden the focus of reform in Senegal.

II. RECENT ECONOMIC DEVELOPMENTS, SHORT-TERM OUTLOOK, AND PROGRAM PERFORMANCE

3. **Macroeconomic performance remains below trend.** The global financial crisis had a marked impact on Senegal's economy but domestic factors also played a role.

- Real GDP growth was modest. In 2009, business activity remained weak. The general activity index (excluding agriculture and government) was flat for most of 2009 (year-on-year), but there was a modest upturn in activity in the last quarter. Estimated growth was around 1½ percent in 2009. The relatively robust performance of the primary sector is attributable primarily to favorable climatic conditions and a more dynamic agricultural policy. In the secondary sector, Industries Chimiques du Sénégal (ICS) continues to recover but was faced with

[1] Details of this program were set out in the initial MEFP of October 3, 2007 and in the MEFPs of May 30, 2008, December 5, 2008, June 5, 2009, and December 4, 2009.

significantly lower export prices. Results in the tertiary sector, a traditional engine of growth in the Senegalese economy, were poor.

- The financial and operational difficulties of SENELEC (the public electricity company) led to repeated power cuts that were detrimental to production and investment by private sector enterprises.

- Inflation measured by the consumer price index (year-on-year) has been negative since May 2009, largely because of a decline in food and energy prices.

- The external current account deficit is estimated to have improved compared to 2008, primarily as a result of the decline in oil and food prices for the year as a whole.

4. **Most quantitative program criteria for end-December 2009 were met**.

(a) The ceiling on the basic fiscal deficit was exceeded by 0.8 percent of GDP in 2009. The basic fiscal deficit at end-December 2009 was CFAF 168 billion, while the ceiling set in the program was CFAF 119 billion. Tax revenues from public entities were lower than anticipated as they accumulated tax arrears. At the same time, current spending was higher than expected in response to urgent needs. These expenditures were based on budget appropriations authorized through supplemental appropriation decrees. Current spending without firm spending limits in the budget, such as telephone, electricity, and water charges, was also higher than expected. However, the government continued to develop its investment program and capital spending reached 10½ percent of GDP. The government will endeavor to limit recourse to supplemental appropriation decrees and to better estimate spending that does not have firm spending limits in the budget, and it notes that it has restricted this type of spending starting with the 2010 budget. In the future, the government will endeavor to offset budgetary expenditure overruns by reducing nonpriority spending and will transmit all supplemental appropriation decrees to Parliament in a timely manner. In accordance with applicable law, the government will ratify supplemental appropriation decrees in the following initial or supplementary budget. Given the need to support demand in a very difficult external context and the measures that the government has taken, the government will request a waiver for exceeding the ceiling on the fiscal deficit. According to preliminary data, the (indicative) target for the basic fiscal balance at end- March 2010 was met.

(b) At end-December 2009, the budgetary float had declined to a normal level of CFAF 37 billion (⅔ percent of GDP) as compared to CFAF 175 billion (3 percent of GDP) in October 2008. At end-March 2010, the budgetary float amounted to CFAF 40 billion, below the (indicative) ceiling of CFAF 45 billion.

(c) The government did not accumulate any external payment arrears.

(d) In December 2009, the government successfully launched an international bond issue in the amount of US$200 million (CFAF 87 billion) to finance the Dakar-Diamniadio highway, authorized under the program for up to CFAF 90 billion. The issue was oversubscribed. The five-year bond bears a nominal interest rate of 8.75 percent and an effective interest rate of 9.25 percent.

(e) The government has not approved any Treasury cash advances since end-2008 and has executed budget expenditure according to the normal and simplified procedures. As indicated above, in 2009 the government used supplemental appropriation decrees, in accordance with the organic law of 2001 and signed by the President of the Republic and the Prime Minister, to establish new budget appropriations for expenditures totaling CFAF 30 billion, approximately half of which were used to finance the wages of contractual workers in the education sector in order to avoid widespread strikes.

(f) The government limited single-tender contracts to 6 percent of all government procurement in the fourth quarter of 2009 and 15 percent in the first quarter of 2010 (compared to a program ceiling of 20 percent).

5. **On the whole, structural reforms continued in line with program commitments.** Most of the structural benchmarks were met:

(g) As last year, the government followed applicable budget execution and accounting closure rules. The cutoff date for budget commitments was November 30 and only a few minor commitments were contracted during the early part of December. The complementary period provided in the law, which ends the administrative phase of budget execution (payment orders) at December 31 (structural benchmark), was essentially respected. To the extent allowed by the available information, Treasury suspense accounts were closed at the end of February to reduce the volume of pending operations to the strict minimum at that time. After February 28, any operations from the previous fiscal year affecting the government's cash flow were charged to the current year. The data for fiscal year 2009 in the expenditure tracking system (SIGFIP) were finalized as of April 30, 2010. To achieve greater transparency, the provisional end-of-month data from SIGFIP and the government financial operations table (TOFE) were published on the website of the Ministry of Economy and Finance 10 and 45 days, respectively, after the end of the month, beginning with the November 2009 TOFE and the end-December 2009 SIGFIP.

(h) The government has issued a press release summarizing the results of the audit of extrabudgetary expenditure and public institution and agency debt, setting forth its general strategy for settling payments in the first supplementary budget for 2010 (structural benchmark, January 31, 2010). Following the audit by the Office of the Inspector-General of Finance (IGF), an independent external audit of extrabudgetary expenditure completed in June 2009 identified extrabudgetary spending in the amount of

CFAF 37 billion and public agency and institution debt of CFAF 67 billion as of December 31, 2008. Given the complexity of the task, more time was needed to determine the amount to be settled and to establish the detailed terms and conditions.

(i) The government has taken action following its study of tax expenditures, which revealed that tax expenditures and other types of tax exemption could exceed 3 percent of GDP. Bearing in mind the costs and benefits of specific tax expenditures, the government has established a plan of action identifying the key measures that could be eliminated and examining the legislative and regulatory amendments needed to eliminate them (structural benchmark, March 2010).

(j) The government has reviewed progress with the reform of the financial sector since the 2004 update of the 2001 national Financial Sector Assessment Program (FSAP) and the 2007 regional FSAP. The action plan for Senegal builds on existing plans and measures, identifies the reform manager, distributes the main tasks, and provides an indicative calendar for the reforms (structural benchmark, end-March 2010). The action plan is wide-ranging and includes measures in the following areas: banking and insurance sectors, microfinance institutions and other financial intermediaries, cash flow management, legal framework, and access to financial services.

(k) A supplementary budget will be submitted to Parliament no later than May 15 (structural benchmark). It will include the specific line items authorizing the Ministry of Finance to settle in 2010 the extrabudgetary arrears of ministries and public institutions and agencies and part of the public institution and agency debt identified in the July 2009 audit and not yet budgeted for. Debts not requiring a budgetary allocation will be presented in an annex to the supplementary budget. A detailed analysis conducted by the government has shown that in the interim some extrabudgetary expenditures have been included in the 2009 and 2010 budgets, all required transfers have been made to the public institutions and agencies, and these institutions now have full access to their Treasury deposits. Nevertheless, despite this progress, public institutions still have debts to the private sector, as well as tax and social security contribution debts, because of their own budgetary imbalances.

III. Macroeconomic Policies for the Remainder of 2010 and for 2011

A. Outlook

6. **Economic activity in Senegal remains weak, but signs of recovery are appearing and the gradual upturn in the global economy should help to stimulate domestic activity.** Growth of about 3½ percent is expected in 2010, and inflation should return to about 2 percent as oil prices recover.

7. **Uncertainties remain high.** A more subdued international recovery than anticipated could slow remittances, official development assistance, exports, and foreign

direct investment and have a negative impact on growth. Continued implementation of energy sector reform is essential to minimize the risks that repeated power cuts pose for economic activity.

B. Fiscal and Financial Policy Stance

8. **The 2010 budget aims to reconcile several objectives: provide some support for overall demand, protect priority spending, and ensure debt sustainability.** Given the impact on revenue of a growth outlook that is slightly below forecasts at the time the budget was prepared, high current spending, and financing constraints, the budget deficit (including grants) will need to be reduced somewhat by restricting spending for a total amount of CFAF 35 billion. Social spending ministeries (education and health) are not affected by this adjustment. The overall budget deficit (including grants) would be about 4½ percent of GDP in 2010, which is slightly below the level foreseen during the last review. The revised ceiling for the basic fiscal deficit in 2010 is CFAF 97 billion (CFAF 49 billion at end-June 2010—assessment criterion). However, in case privatization receipts occur in 2010, spending will correspondingly be reinstated up to the level in the initial budget for 2010. If privatization receipts occur in 2010, spending will be increased and the ceiling on the basic fiscal deficit correspondingly raised by up to CFAF 35 billion.

9. **Given that the supplementary budget based on the macroeconomic framework prepared with IMF staff will be submitted to Parliament no later than May 15 (structural benchmark) along with the press release, the government confirms that it is committed to rapidly and transparently settling all extrabudgetary arrears and public institution and agency debt.** According to the precise assessment prepared by the authorities, extrabudgetary expenditure in the amount of CFAF 30 billion and public institution and agency debt to the private sector in the amount of CFAF 16 billion remain to be cleared, of which at least 50 percent will be cleared by end-September 2010, in line with the commitment undertaken earlier to settle at least 50 percent of extrabudgetary arrears and public institution and agency debt identified in the July 2009 audit by end-September 2010 (structural benchmark, end-September 2010).

10. **The government will ask for another internal audit by the Office of the Inspector-General of Finance to verify that no new extrabudgetary commitments or new public institution and agency debt have been accumulated since end-2008.** The audit will assess the level of the debt at end-2009. The government will publish a new press release at end-September 2010 that will report on the results of the audit and summarize progress made in clearing the extrabudgetary commitments and public institution and agency debt, to the extent that all claims have not been regularized, and that will detail the next steps to complete this process (structural benchmark, end-September 2010).

11. **As part of the government's objectives, the composition of expenditure will receive greater attention.** Social spending will increase from 33 percent of total spending in 2008 to almost 35 percent in 2010. The government intends to increase these expenditures to 40 percent of GDP in the near future (the initial PRSP target for 2010 having proven to be overly ambitious). Spending on poverty reduction will be regularly monitored. To support the ongoing development of Senegal's physical infrastructure, which remains one of the government's key objectives, current expenditure on goods and services and transfers will be reduced as a percentage of GDP in 2010. This will free resources that will be used to finance a higher level of domestically financed capital expenditure.

12. **The government bases its medium-term fiscal policy stance on debt sustainability considerations and will continue to pursue a prudent fiscal policy.** It is committed to limiting the overall fiscal deficit to 4 percent of GDP over the medium term and to approximately 3.5 percent of GDP in the longer term. The government's semiannual 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.

13. **To ensure debt sustainability, the government will continue to favor concessional financing and, in general, will not contract or guarantee any new external borrowing on nonconcessional terms.** The government will consult with IMF staff in advance regarding any exceptions. Nonconcessional borrowing should be guided by debt sustainability considerations and should be linked to specific economically profitable projects for which sufficient external concessional financing or domestic and regional financing could not be mobilized.

14. **In the future, the government hopes to continue its policy of developing infrastructure and to benefit from the flexibility provided by the new rules on external debt.** It is working on new, large infrastructure projects, including the extension of the Dakar-Diamniadio highway. The government will work in close collaboration with its development partners to assess the economic profitability of these projects and identify the necessary financing. It is planning to have an assessment ready before the next PSI review so that concessional resources and domestic and regional financing may be supplemented, if necessary, with other nonconcessional resources as a last resort. The government is aware that any nonconcessional financing must be linked to economically profitable projects (evaluated by a reliable entity such as the World Bank) and should not jeopardize debt sustainability.

C. Structural Reforms

Budget reforms

15. **To build on progress already made, the government remains committed to continuing its ambitious budget reforms.** These reforms, based on an overall fiscal reform program supported by the development partners (in particular the IMF technical assistance report and the PEFA report), are essential to enhancing budget efficiency and transparency, while also helping to protect macroeconomic stability.

16. **As indicated above, the government will endeavor to limit recourse to supplemental appropriation decrees.** The government will also endeavor to maintain budgeted spending levels by offsetting expenditure overruns through equivalent reductions in other spending and will transmit all supplemental appropriation decrees to Parliament in a timely manner. In accordance with applicable law, the government will ratify supplemental appropriation decrees in the following initial or supplementary budget.

17. **The government has taken important steps to prevent the recurrence of public institution and agency debt**. It has based accountants in the public institutions and agencies to track budget execution and regularly report to the Treasury on the liquidity situation. To bolster agency cash flow, the government will ensure the timely processing (no later than 90 days after the Treasury receives the check) of transfers to the accounts of Treasury correspondents (particularly public institutions and agencies) and/or payments to enterprises for invoices by withdrawals from the correspondents' deposit accounts with the Treasury. To this end, the following measures will be applied: (i) a cash flow plan is established in advance between the Treasury and the correspondents and this plan is updated regularly; (ii) the Treasury is notified of transfer or payment intentions at least thirty days before the withdrawal or payment date.

18. **The government will continue to improve SIGFIP as a key budget monitoring system and will implement the recommendations of the IMF technical assistance missions in the area of public financial management.** Following the audit of SIGFIP and the two technical assistance missions in late 2009 that focused essentially on the expenditure chain and budget execution, a follow-up technical assistance mission took place in late February 2010. The government has made progress using SIGFIP and ASTER as complementary information systems to improve the preparation, execution, and tracking of fiscal and accounting operations and making the government financial operations table (TOFE) more reliable. In the short term the government intends to improve SIGFIP by incorporating payroll expenditure and implementing the SIGFIP-ASTER interface (structural benchmark, end-July 2010). Work on implementing the interface in the ASTER-SIGFIP direction continues. The interface 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 review laws (lois de règlement). Moreover, the auxiliary expenditure accounting module (CAD) will be operational in 2010. To press ahead with these reforms, a high-level information systems steering committee has been established within the Ministry of Economy and Finance.

19. **The preparation of draft budget review laws will continue.** The draft budget review law for 2008 was forwarded to the Audit Court by end-December 2009 and the one for 2009 will be forwarded to the Audit Court by end-September 2010.

20. **To improve its cash management, the government is updating the 2006 census of all government accounts, including public institution and agency accounts, with a view to finalizing the strategy to establish a single Treasury account.** All government accounts and public institution and agency accounts, including their bank accounts, will be listed. For each account the list will include the number, name of the holder, and the balances as at December 31, 2008 and 2009 (structural benchmark, July 2010). To ensure that the census is comprehensive, the government will ask ministries and public institutions and agencies for a list of accounts and authorization for their banks to provide the necessary information to the Treasury. The census is a significant step toward establishing a single Treasury account, which is an essential tool for improving the central government's daily liquidity management. The government also intends to strengthen liquidity tracking and forecasting at the Treasury by using all available information and requiring the cooperation of all government entities concerned.

21. **The government will also improve its debt management.** It recognizes the importance of collecting all the necessary information and involving all units concerned. The government intends to better coordinate the tracking of financing needs and management of the government's external and domestic debt, in line with the guidelines given by the National Public Debt Committee. All data on the public debt will be centralized whatever the origin of the loans contracted. In this way, the government envisages establishing a global debt management strategy. These measures could also help to improve indicators of public finance management capacity, such as the PEFA (Public Expenditure and Fiscal Accountability) assessments and CPIA (Country Policy and Institutional Assessments). To improve debt management, the government is also regularly updating the rolling two-year calendar for the issuance of public securities, either quarterly or after each issuance, in cooperation with the Central Bank of West African States (BCEAO).

22. **The process of evaluating and selecting public investment projects will be improved.** It will be based on the Prime Minister's circular of November 2008 and the commitments undertaken in the initial MEFP (para. 25) and the MEFP for the first review. New projects involving CFAF 500 million or more will be subject to a formal economic cost-benefit/profitability analysis on which the selection process will be based.

The government also plans to improve the method of determining the order of priority of projects. The government notes that the new airline that has just been created is a majority privately owned company that will not benefit from additional funds or guarantees from the government. Moreover, Air Sénégal International's cessation of operations has thus far required no financing from the government and no supplementary financing is expected.

Tax administration

23. **Following the analysis of tax expenditures, the government prepared an action plan designed to eliminate distortionary tax expenditures with significant budgetary cost.** For simplicity and effectiveness, the government will consolidate all legislation relating to domestic taxation in a single document by October 15, 2010 (structural benchmark, October 15, 2010). The government has also committed to conduct an ex ante impact evaluation prior to any adoption of new tax expenditures. This evaluation will be designed to rigorously analyze a measure's likely economic consistency, efficiency, and effectiveness and to reject it if these criteria are not met.

Energy sector

24. **Progress has been made since the last review with the ten measures set out by the government, in particular the implementation of the reform of SENELEC which is progressing satisfactorily, and also the following measures that are in the process of being carried out: strengthening the commercial performance of SENELEC and the process to penalize fraudulent activities, implementing the recommendations of the audit on accounting procedures, and implementing debt restructuring, cancellation, and rescheduling.**

The preliminary financial results of SENELEC for 2009 are below the forecasts made in November 2009. The government intends to take the following measures in the short-term:

- Adjust tariffs, if necessary, effective April 1, complementing the measures indicated above, to reduce the difference between tariffs and variations in production costs or the cost of energy purchases;

- Given SENELEC's tax arrears in 2009, ensure that tax payments by SENELEC are included in calculations of the company's financial stability and take all legal and regulatory measures to ensure that SENELEC regularly satisfies its tax and customs obligations. SENELEC will provide a statement of its tax and customs obligations, at a minimum on a quarterly basis, to the Minister of Finance;

- Return the GTI power station to service while maintaining existing contractual stipulations regarding the guarantee by the state without other financial risk for the government;

- Mobilize private bank loans in the amount of CFAF 36 billion against payment in two tranches in 2011 and 2012 of the balance of the 2008 compensation to SENELEC by the government for the freezing of electricity tariffs. However, the net debt by SENELEC to the government resulting from the agreement to offset mutual claims, as well as all new debt of SENELEC vis-à-vis the government accumulated in 2010, will be deducted from the bank loans before the proceeds are made available to SENELEC;

- Finalize the terms and conditions for restructuring SENELEC's short-term debt to reduce the stock of arrears and the high cost of debt servicing; and

- Undertake an assessment of the fuel supply and human resource management functions.

25. **The government is committed to implement a detailed action plan in line with regulations to meet the conditions of the second tranches of budget support from the World Bank and AFD relating to the restructuring of the sector, currently planned for 2011.** In cooperation with the World Bank and AFD, the government intends to unbundle SENELEC's activities (production, transport, and distribution) in the medium term and to finalize its strategy for private participation.

26. **To improve tracking by the authorities, the government has transferred the management of the amounts collected by SAR as FSIPP (*Fonds de Sécurisation des Importations en Produits Pétroliers)* assessments from the Treasury to the DGID.** Despite some implementation delays, the DGID has begun collecting FSIPP payments made by SAR clients. It deposits the payments in the account of the General Treasurer opened at the BCEAO that is dedicated to FSIPP. On the 25th of each month, the General Treasurer gives the BCEAO an order for a transfer to a SAR account opened at ECOBANK to allow the bank to be reimbursed. The government is committed to include all subsidies and transfers to SAR, including FSIPP payments collected by the DGID and all strategic investments in the oil sector, in the first supplementary budget for 2010.

Financial sector reforms

27. **There were some cash flow difficulties in the financial sector in late 2008 linked to domestic factors as well as the global crisis.** Nonperforming loans have stabilized, but several banks still fail to meet certain prudential regulations. Against this backdrop, the authorities are determined to make every effort to maintain stability in the financial sector. The government action plan lists measures taken to date and identifies priorities for the coming year. In particular, the authorities undertake to:

(a) Continue to monitor the banks, including analyzing bank assets and liabilities, the nature and concentration of financing sources, liquidity relationships with parent countries or institutions in the same group abroad, and overall liquidity. It will also intensify discussions with the WAEMU authorities and supervisors of foreign institutions with a presence in Senegal;

(b) Focus on macrofinancial risks arising from financing links between the government, private sector, and financial system. Banks will be subject to regular stress tests;

(c) Step up consultations with the government and banks to anticipate financing and cash requirements of the government and private sector;

(d) In consultation with the central bank, closely monitor the entry into force of the new minimum capital rules by end-2010. In this connection, a working group made up of officials from the BCEAO and a representative of the Ministry of Finance has been created in each WAEMU country at the initiative of the BCEAO and the Banking Commission to review the position of credit institutions likely to encounter difficulties in complying with the new rules and proposing targeted measures;

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

28. **The government aims to improve the institutional, legal, and operational environment for private sector financing** to enhance household access to credit and expand financial intermediation. The following initiatives will be taken:

(a) implementation of an action plan to increase the rate of bank penetration to 20 percent by end-2012 through, inter alia, government promotion of noncash means of payments;

(b) establishment of a legal framework that supports the creation of credit information bureaus;

(c) finalization of legislation governing financial leasing to promote financing of start-ups and growth of innovative small and medium-sized enterprises.

Developing the private sector and improving governance

29. **Accelerating growth requires rapid implementation of several key reforms.** The government is determined to accelerate the momentum to improve the business environment and reach international standards. Senegal's position in the World Bank's “Doing Business” indicators has fallen. Key areas for improvement include strengthening contract enforcement, reducing delays in transferring property rights, modernizing labor legislation, simplifying customs procedures, and improving access to finance. The government specifically commits to achieve the following as soon as possible:

(a) improve the efficiency of the commercial justice system by providing courts with the resources required for the expeditious handling of economic disputes and implementing administrative measures already identified;

(b) reduce delays in the transfer of property rights as specified in office memoranda issued in 2008 and adopt and effectively implement the Prime Minister's circular regarding reductions in the time it takes to issue construction permits and hook up water, sewage, electricity, and telephone services;

(c) extend possibilities for renewing fixed-term labor contracts;

(d) implement the action plan that came out of the second national forum on credit, which took place on March 16 and 17, 2010, according to a timetable to be agreed.

30. **The government is also introducing various measures designed to improve governance as follows**:

(a) finalizing legislation on government property and real estate: (i) the law on real estate ownership and its implementation decree; (ii) updating of the price schedules for government-owned property;

(b) strengthening of the Audit Court by providing it with the appropriate level of resources and promoting the training of judges with the help of donors;

(c) introducing measures to guarantee the availability of appropriate resources for the procurement regulatory agency (ARMP); and

(d) introducing measures to ensure that the National Commission to Enhance Transparency and Combat Corruption and Extortion has sufficient resources to perform its work.

IV. PROGRAM MONITORING

31. **Quantitative assessment criteria for end-June 2010 and quantitative indicators for end-September 2010 have been set to monitor program implementation in 2010 (see Table 1 below).** The government and IMF staff also agreed on the structural benchmarks listed in Table 2 below. The sixth review under the PSI is expected to be completed by end-October 2010. The PSI expires on November 1. The government is resolved to continue to work closely with the IMF. The terms and conditions for the continuation of this collaboration will be examined during the next mission.

Table 1 of MEFP. Quantitative Assessment Criteria and Indicative Targets for 2010 1/

(CFAF billions, unless otherwise specified)

	June 30, 2010		September 30, 2010
	Existing	Proposed	
Assessment criteria			
Floor on the basic fiscal balance 2/	-59	-49	-73
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/ 5/	0	0	0
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0
Ceiling on the amount of the float (*depenses liquidees non payees par le Tresor*) 6/	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

1/ Indicative targets for September 2010, except for the assessment criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC and MDRI spending, and payment of extrabudgetary spending and agency debt identified in the July 2009 audit and included in the first supplementary budget of 2010. 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 fourth PSI review.

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

1.

Table 2 of the MEFP: Structural Benchmarks, May–October 2010

Measures	MEFP §	Implementation Date	Macroeconomic Rationale
1. Submit a supplementary budget for 2010 to Parliament, based on the macroeconomic framework agreed with IMF staff, which includes specific line items authorizing the Ministry of Finance to settle in 2010 the extrabudgetary arrears of ministries and public institutions and agencies and part of the public institution and agency debt identified in the July 2009 audit and not yet budgeted for. Any debt settlement not requiring a budget allocation will be presented in an annex to the supplementary budget. This process is accompanied by a press release explaining the settlement terms and conditions.	5, 9	May 15, 2010	Complete the normalization of financial relations with the private sector.
2. Improve SIGFIP by including payroll expenditure and implementing the SIGFIP-ASTER interface.	18	July 31, 2010	Strengthen the monitoring of budget execution.
3. Conduct a census of all accounts of general government and public institutions, including the number, name of the holder, and the balances as of December 31, 2008 and 2009 for each account, with a view to adopting a strategy to establish a single Treasury account.	20	July 31, 2010	Improve the management of cash flows, as well as the transparency of operations.
4. Complete payment of at least 50 percent of extrabudgetary arrears and public institution and agency debt identified in the July 2009 audit.	9	September 30, 2010	Complete the normalization of financial relations with the private sector and improve the business climate.
2. 5. Publish a press release reporting on the results of the internal audit, summarizing progress made to clear the extrabudgetary commitments and public institution and agency debt, and detailing the steps taken to complete this process.	10	September 30, 2010	Complete the normalization of financial relations with the private sector and improve the business climate.
6. Compile the general tax code and all legislation governing domestic taxation in a single document.	23	October 15, 2010	Further simplify the tax system.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, May 7, 2010

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 2010. The quantitative program targets will also serve as performance criteria under the Exogenous Shocks Facility (ESF). The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation

I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for June 30, 2010 and the quantitative indicative targets for September 30, 2010 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 budgetary assistance), expenditure funded with HIPC- and MDRI-related resources, and expenditure related to the settlement of agency debt and extrabudgetary arrears identified in the July 2009 audit and included in the first supplementary budget for 2010. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses ordonnancées prises en charge par le Trésor*). This assessment/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, 2010 is – CFAF 49 billion. It is calculated as the difference between budgetary revenue (CFAF 614 billion) and total expenditure and net lending (CFAF 834 billion), excluding externally financed capital expenditure (CFAF 137 billion), drawings on on-lent loans (CFAF 5 billion), and expenditure funded with HIPC-and MDRI-related resources (CFAF 30 billion).

Reporting requirements

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

C. Adjuster for the Basic Fiscal Balance

Definition

7. The floor on the basic fiscal balance does not take into account any privatization receipts. However, if privatization receipts occur in 2010, spending will be increased and the floor on the basic fiscal balance correspondingly raised by up to CFAF 35 billion.

Example

8. If CFAF 100 billion in privatization receipts were to become available in 2010, spending would be carried out in line with the initial budget and would be raised by CFAF 35 billion, from CFAF 1668 billion to CFAF 1703 billion. The floor on the basic fiscal balance would be lowered by CFAF 35 billion, from –CFAF 97 billion to –CFAF 132 billion.

D. Budgetary Float

Definition

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

Reporting requirements

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

E. Spending Undertaken Outside Simplified and Normal Procedures

11. This assessment/performance 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 an advance decree in cases of absolute urgency and need in the national interest, in application of Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and Prime Minister. This criterion has been monitored from the time of the second PSI review.

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

F. Government External Payments Arrears

Definition

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

Reporting requirements

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

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

Definition

15. This assessment/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.[1] The criterion does not apply to:

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

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

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

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

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

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

17. 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

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

autonomy where the government holds at least 50 percent of the capital), and government agencies.

18. Any external debt of which the net 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 average of the ten-year commercial interest reference rates (CIRRs) published by the OECD is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs.

Reporting requirements

19. 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.

H. Public Sector Contracts Signed by Single Tender

Definition

20. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to public sector contracts examined by the Central Public Procurement Directorate (DCMP).

Reporting requirements

21. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total 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

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

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

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

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;

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

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

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

- The provisional balance of the Treasury accounts; and

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

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

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

24. The government will transmit to Fund staff :

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

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

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

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

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

25. 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.