

## International Monetary Fund

[Senegal](#) and the IMF

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

**Press Release:**  
[IMF Executive Board  
Completes Sixth  
Review of Policy  
Support Instrument  
for Senegal](#)  
December 20, 2013

December 5, 2013

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 financial support 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.

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## Letter of Intent

Dakar, Senegal  
December 5, 2013

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C., 20431  
USA

Madame Managing Director,

1. The government of Senegal requests completion of the sixth review under the Policy Support Instrument (PSI) of its macroeconomic program. The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-June 2013, defines the macroeconomic objectives for the rest of 2013 and for 2014, and updates the structural reforms monitored under the program.
2. Program implementation has remained satisfactory. Despite the significant tax revenue shortfalls, all quantitative criteria and indicative targets under the program at end-June 2013 were met, including the budget deficit target. Progress was also made in structural reforms, even though the implementation of a number of measures took somewhat longer than expected.
3. We remain committed to achieving the programmed reduction of the fiscal deficit in 2013 despite the difficult circumstances. The reduction in the fiscal deficit will continue in 2014 and beyond with a substantial effort to improve the efficiency of public expenditure and make it more growth friendly. We are also committed to accelerating the pace of reform implementation, which is critical to raise Senegal's growth potential and improve substantially living standards.
4. A number of changes in program monitoring mechanisms are desirable. End-June 2014 quantitative assessment criteria and targets for end-December 2014 are proposed in the attached memorandum, together with new structural benchmarks. We also request that the ceiling on semiconcessional borrowing (financing having a grant element of 15–35 percent) be increased from CFAF 67 billion to CFAF 132 billion to facilitate the financing of high-return investment projects; this requires a modification of the assessment criterion for end-2013.
5. The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the PSI-supported program. Given its commitment to

macroeconomic stability and debt sustainability, the government will promptly take any additional measures needed to achieve the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures and in advance of revisions to the policies contained in the attached MEFP, in accordance with the Fund’s policies on such consultation.. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

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

Sincerely yours,

/s/

Amadou Ba  
Minister of Economy and Finance

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

# Attachment I. Memorandum of Economic and Financial Policies

## Dakar, December 5, 2013

### Introduction

1. **Senegal is going through a critical phase in the implementation of its reform program.** Profound reforms are required to increase growth potential, create more jobs, and raise the standard of living for the population. These reforms have been subject to detailed preparation, and their implementation must now be accelerated. They will lead to enhanced economic efficiency, including in public sector activity, and will make it possible to improve public governance, ensure fiscal sustainability, and preserve macroeconomic stability—all important objectives of the program supported by the IMF. Clearly there will be obstacles in implementing the reforms, particularly resistance from those who fear they will be negatively affected by certain aspects of the program. While certain legitimate concerns should be borne in mind, we must consider the positive impact of the reforms on the overall economy and on public finance. This would bring room for maneuver to the government.
2. **This Memorandum of Economic and Financial Policies (MEFP) updates the program supported by the Policy Support Instrument (PSI) in 2011–14.**<sup>1</sup> The program aims to (i) conduct prudent fiscal and debt policy to preserve macroeconomic stability; (ii) increase revenue to generate more fiscal space to finance priority expenditure; (iii) continue efforts to strengthen fiscal management and governance; and (iv) promote development of the private sector by implementing structural reforms, primarily in the energy and finance sectors, as well as other reforms involving the business climate. The MEFP includes three sections. The first section covers recent economic developments and the program implementation. The second focuses on the macroeconomic objectives for 2013 and the medium term, and on macroeconomic policy and structural reforms. The last section summarizes the desired changes in program monitoring.

### Recent Economic Developments and Program Implementation

3. **Recent macroeconomic developments have been broadly in line with the program projections.** In fact, economic activity measured by the general economic activity index, a proxy for non-agricultural GDP, registered cumulative growth of 3.7 percent for the first seven months of 2013, despite the slippage observed in the secondary sector. The tertiary sector registered satisfactory results for the period (+6 percent), attributable to transportation, telecommunications, and financial services. Overall, projected real GDP growth in 2013 was maintained at 4.0 percent, compared with 3.5 percent in 2012. Inflation measured by average prices during the first eight

<sup>1</sup>The content of this program was set out in the initial MEFP of November 10, 2010; as well as in the MEFPs of May 19, 2011; December 2, 2011; June 22, 2012; November 22, 2012; and June 3, 2013.

months of 2013 compared with prices during the corresponding period in 2012 amounted to 0.7 percent. A slight improvement in the trade deficit has been recorded in 2013 owing to rapid growth in exports and modest growth in imports. The increase in money supply was quite moderate.

4. **Program implementation has remained satisfactory.** Budget execution was characterized by substantial revenue shortfalls during the first eight months of the year. This disappointing performance is largely attributable to nontax revenue, value-added tax (VAT), and individual income tax. The decline in the latter in fact was greater than expected, giving taxpayers substantially more purchasing power. The decline in VAT revenue is in part a reflection of the recent tax reform, specifically the elimination of the VAT withholding applied by government agencies to large enterprises. This measure meant an improved cash position for the enterprises involved and should ultimately improve domestic VAT collection. Despite the tax revenue shortfalls, all quantitative criteria and indicative targets under the program at end-June 2013 were met, including the budget deficit target.

5. **The following progress has also been made in structural reforms:**

(i) Finalization of the treasury single account: work on the comprehensive survey of bank accounts held by government ministries, agencies, and institutions and on resistance tests has been completed. The impact study on closing certain accounts has also been completed. Each autonomous unit has been notified of the account streamlining measures to be taken.

(ii) Electronic filing and electronic payment of taxes by large enterprises: implementation of electronic tax filing options has begun, and approximately 20 large enterprises have already used the option. It has taken time to implement electronic payment processes because of more complex legal and administrative factors. Electronic payment has become operational for taxes on imports in November 2013 and is expected to be operational for other taxes in December 2013.

(iii) Use of cost-benefit analysis for large investments in the 2014 budget: no projects exceeding CFAF 10 billion have been forwarded to the Directorate-General of Planning (DGP), which is responsible for conducting the analysis. However, the DGP organized two training sessions (in July and August 2013) for members of the sectoral ministries' planning units, covering the cost-benefit analysis method, to ensure that the technical tools to evaluate the projects will be available.

(iv) Reorganization plan for agencies: the experts' report was completed in July 2013 and validated by the agency reform commission. The government adopted a strategy in November.

(v) Implementation of the new payroll management software: software development has been completed and implementation will begin in January 1, 2014. This activity was delayed because of payment and delivery problems with the supplier.

(vi) Submission of a new customs code to parliament: the draft was first internally validated by the Directorate-General of Customs (DGD). A sharing seminar was organized, and a joint monitoring

committee established for the technical and financial partners and other administrations to submit the conclusions of the seminar and to validate the recommendations. However, the private sector requested and was granted more time to internalize the text. The new code was adopted by the Council of Ministers and submitted to parliament in November.

(vii) Submission of a draft law on asset declarations to the assembly: the draft was adopted in the July 11, 2013 session of the Council of Ministers and submitted to the assembly in November 2013.

## Macroeconomic Policy and Structural Reforms for the Rest of 2013, 2014, and the Medium-Term

### A. Macroeconomic Context for 2013 and 2014

6. **The external environment is expected to be more buoyant in 2014.** The modest acceleration in the world economy expected in 2014, the improved sociopolitical situation in the subregion, and good rainfall in 2013 bode well for an acceleration in exports and increased growth.

7. **Because of the less unfavorable international environment than in recent years, as indicated, GDP growth is expected to increase to 4.6 percent in 2014, compared with 4 percent in 2013.** We can expect this uptick in activity to be sustained primarily by investments in agriculture; infrastructure (extension of the northern road in Dakar, and of the highway from Diamniadio to the Blaise Diagne International Airport—AIBD—and from the AIBD to Mbour, continuation of works at the AIBD, etc.); energy (improved electricity distribution); implementation of the heavy minerals project in Grande Côte (zirconium) and gold mine projects; continuation of projects financed by the Millennium Challenge Account (MCA); and execution of projects in the social sectors. Inflation is expected to remain moderate at approximately 2 percent in 2014. Although on the decline, the balance of payments' current account deficit is expected to remain substantial because of investments in energy and mining.

8. **This scenario continues to be characterized by downward risks.** A sharper-than-expected growth slowdown in emerging countries and the continued toughening of financial conditions on the international markets constitute new external risks. The rise in interest rates on the world markets has already affected budget financing costs. Domestically, the main risks are insufficient fiscal consolidation and delays in implementation of reforms designed to make public expenditure and the energy sector more efficient.

9. **The progress made and new challenges** involved in implementing the key measures adopted under the program are presented in the rest of this section and are grouped in accordance with the four main objectives of the program.

## B. Pursue Prudent Public Finance and Debt Policies to Safeguard Macroeconomic Stability

10. **The objective of reducing the fiscal deficit for 2013 remains unchanged.**

The government intends to maintain its objective of reducing the fiscal deficit despite the difficult circumstances. Revenue collection efforts will be undertaken to narrow the shortfalls registered at the beginning of 2013. Savings are expected in the wage bill, in public debt interest payments, and with the postponement until 2014 of new investment projects financed with domestic resources.

11. **The reduction in the fiscal deficit will continue in 2014 and in the medium term with a substantial effort to improve the efficiency of public expenditure.**

In accordance with the commitments the government has undertaken to preserve debt sustainability and restore fiscal space for the future, the budget deficit will be reduced to 4.9 percent of GDP in 2014 and to less than 4 percent in 2015. The modest downward revision in the deficit target for 2014 reflects a significant effort to increase public investment. The reduction in the deficit will come from a significant effort to increase revenue and to rationalize expenditure, with special emphasis on current expenditure. The state will increase the efficiency of its expenditure, which will limit the short-term impact on growth and will help increase growth potential in the medium term.

12. **Substantial efforts will be made to strengthen budget revenue.** These efforts will include, among other things, strengthened tax control and an expanded tax base through intensive use of available information sources. Tax policy measures are also envisaged (Box 1). The government plans to discontinue use of tax stabilization measures to support prices for petroleum products.

13. **Efforts to rationalize expenditure will continue.** Recent macroeconomic developments suggest the increase in the volume of public expenditure, including capital expenditure, has not produced the expected growth performance. These unfavorable developments emphasize the need to rationalize public expenditure to increase efficiency. Efforts in this area will be accelerated (Box 2):

### Box 1. Measures to Increase Revenue

- **A variety of tax policy measures (expected gain of 0.1 percent of GDP):** (i) application of a uniform tax rate of 45 percent on all cigarettes (the increase will apply only to low-price cigarettes, for which the current rate will be increased from 40 to 45 percent); (ii) an increase in the minimum lump-sum tax limit from CFAF 5 million to CFAF 20 million; and (iii) elimination of the VAT exemption for indirect exports, particularly by land.
- **Measures to strengthen the tax and customs administration (expected gain of 0.2 percent or GDP).** As underscored in the IMF technical assistance reports, the tax administration has suffered from staff shortages that are adversely affecting revenue collection. In the immediate future, the Directorate-General of Taxes and Government Property (DGID) staff dedicated to survey, assessment, and supervision activities will be strengthened by assigning approximately 100 staff having the required skills to the DGID. These staff will comprise approximately 40 persons from the treasury and contractual staff who have received adequate tax training. Strengthening the work force will make the following activities possible: (i) definition by end-January 2014 of a strategy to resolve tax arrears, based primarily on a risk analysis; this strategy will be implemented in 2014 and assessed at the end of the year; (ii) a comprehensive audit of VAT credits by mid-2014 and application of punitive assessments to cases of fraud identified as a result of these efforts (fraud was found to be widespread in the preliminary assessments carried out with IMF experts on a sample); (iii) more active use of all information sources and the national registration number for enterprises and associations (NINEA). While the increased revenue collection potential in the long term is substantial, these measures will require sustained efforts.

### Box 2. Measures to Rationalize Expenditure

**Operating expenditure.** An ongoing expenditure management module was implemented and shared with the concession holders (SENELEC, SDE, and SONATEL), and with the sectoral ministries. Invoice data will now be used and validated with this tool at the central and decentralized levels. The attribution of mobile telephone lines has already been formalized and approved and is in use, and the recommendations from the audit mission of the Inspectorate-General of Finance on fixed telephone data are currently being implemented. We expect these measures to generate savings of CFAF 11 billion in 2014, on telephone bills alone. Savings will also be made on staff housing provided to senior civil servants and members of government by replacing it with a housing allowance, which is more transparent and easier to regulate.

**Wage bill.** The civil service work force will increase in 2014 because of hiring measures announced in 2013 (mostly in the security forces) and through continued granting of tenure to contractual staff in education. Further, the government will take measures only on wages within the bounds of the macroeconomic framework, without affecting capital expenditure. Last, finalization of the civil service audit will make it possible to eliminate ghost workers.

### Box 2. Measures to Rationalize Expenditure (Concluded)

**Agencies.** Rationalization of agencies will lead to substantial savings in the long term through greater efficiency and transparency in public action. It is possible, however, that this measure might entail restructuring costs in the short term (such as outlays related to the dismissal of contractual personnel). In 2014, agencies receiving

substantial resources related to special fees, sufficient to cover their operating requirements, will no longer receive operating subsidies.

**Agriculture.** Efforts in 2013, with support from technical and financial partners, to target subsidies more effectively to inputs will be continued. This approach should lead to improved efforts to reconstitute seed capital and equipment in rural areas while generating CFAF 6.4 billion in estimated savings.

#### Education

- Wages for contractual personnel will be controlled more effectively after the implementation in January 2013 of the Finpronet system that will permit real-time monitoring of changes in the work force and staff distribution by school district. In addition, the survey of education staff has made it possible to redeploy teachers at the administrative level and from schools with too many teachers to those with shortages.
- In higher education, scholarships and assistance were made contingent on merit and household resources. In fact, in connection with the implementation of presidential decisions following the 78 consensual recommendations under the National Consultation Effort for the Future of Education in Senegal (CNAES), to strengthen internal efficiency, quality, and the “Study in Senegal” brand, the government has undertaken a review of the policy for granting international scholarships (targeting only preparatory classes, engineering schools, and sectors of national interest) and national aid and scholarships that, while supporting excellence and social equity (educational scholarships, those based on achievement, social scholarships, and aid), will now promote students’ performance. To support the substantial efforts the public authorities have made in financing higher education, pursuant to the recommendations under the CNAES, the government also decided to diversify the sources of financing, in particular that the beneficiaries should participate in the financing of their education through reasonable increases in student registration fees. These policies, which will take effect in the 2013–2014 university year, will provide more resources for public higher education earmarked for training, and will permit control and programming of expenditure allocated for scholarships. This new policy will be designed to comply with the budget allocations, in which there was substantial slippage in 2013, and will be restored in 2014 to a level more consistent with the state’s limited resources.

14. **The savings generated with this approach will also be used to finance priority programs to benefit the poor.** Such social security programs are effective instruments to reduce social inequalities and accelerate achievement of the Millennium Development Goals for 2015. More emphasis is placed on (i) the Family Security Allowance (*Bourse de Sécurité Familiale*—BSF); (ii) the autonomous fund for universal social security (*Caisse Autonome de Protection Sociale Universelle*—

CAPSU); and (iii) universal health coverage (CSU). The BSF is a monetary transfer to poor households, for which school enrollment and health care for school-age children are conditionalities. During the pilot phase, this program envisages payment of CFAF 25,000 per quarter to 50,000 targeted households by end-2013. It will reach 250,000 households at end-2017. Universal health coverage aims to provide health risk coverage for more than 65.5 percent of the population by 2017, in accordance with the national strategy to expand risk coverage. In the short and medium term, there are plans for reform in mandatory health insurance through the organization and operation of health provident institutions; development of basic universal health coverage through mutual health associations; strengthened management of existing free care policies (caesarian procedures, the *Plan Sésame* health financing scheme, human immunodeficiency virus—HIV, Expanded Programme of Immunisation—PEV, etc.); and implementation of the new free health care initiative for children under five.

15. **Contingent measures were identified to ensure that the budget targets are met for 2014 in the event certain risks should materialize.** Fiscal management during recent years has been affected by substantial uncertainty involving the level of revenue. Shortfalls have frequently led to capital expenditure adjustments at the end of the year, potentially making public intervention less effective. We would like to break away from this practice and more effectively anticipate revenue risks. The projections for 2014 are more conservative to reduce downward risks. Should revenue shortfalls nonetheless occur, additional revenue measures should be implemented no later than mid-2014 to preserve capital expenditure. Such measures would first be subject to discussion with IMF staff during the seventh program review.

16. **The medium-term debt management strategy has been updated.** The main objective is still to reduce vulnerabilities related to the debt structure through the gradual increase in average debt maturities on the market. Substantial progress was made in 2013, in particular with the issue of a 10-year bond for the first time on the regional market. During the previous review, the government had envisaged issuing a US\$500 million Eurobond in 2013 and using the funds for semiconcessional borrowing to finance infrastructure investments. Because the current conditions on the international market are less favorable, the government decided to postpone the issue of the Eurobond until 2014. Syndicated financing of CFAF 250 billion, including the equivalent of CFAF 100 billion in euro, will make it possible to complete the financing of the 2013 budget under favorable interest rate (6.5 percent) and maturity (7 years) conditions. Moreover, the program of semiconcessional loans would be increased from CFAF 67 billion to CFAF 132 billion to execute three priority investment projects offering high levels of returns (14-20 percent) and with a concessionality rate of 22–32.5 percent.

### C. Increase Revenue to Create more Fiscal Space to Finance Priority Spending

17. **The new tax code took effect in January 2013.** Its implementation is on course despite the problems that occurred during the first half of 2013 in the application of certain new provisions. VAT credits cash reimbursement will begin in January 2014. Studies on the reforms required to complete modernization of the tax legislation will be initiated in 2014. These reforms entail, among

other things, the rationalization of stamp duties, comprehensive taxation of the financial (banking and insurance) and telecommunication sectors, imposition of taxes on e-commerce, environmental taxation, and taxation of natural resources. To rationalize tax expenditure, measures will be taken so that the new tax code that establishes incentives will still be the only one applicable to accompany policies to promote investment and to make enterprises more competitive. Exceptions have been provided, however, related to interim measures to support some of the government's major projects. The projects involved were effectively targeted, and the tax relief was well specified in terms of scope and duration.

18. **Implementation of the plan to modernize the tax administration will be finalized by end-2013.** This reform will be accompanied by appropriate human resource management measures, specifically by the recruitment required to reduce the current deficit.

#### **D. Strengthen Public Financial Management and Governance**

19. **The restructuring strategy for the agencies was adopted.** Under the strategy, certain agencies will be eliminated or merged. The restructuring process will be completed by end-2014. While it is expected to generate substantial savings in the long term, this effort may initially have its costs. The effort will also entail enhanced management of the agencies that remain. Remunerations will be rationalized, beyond what was done in late 2012 for senior management, in order to narrow the gap with respect to the average civil service remuneration, which is about half that in agencies. The current legislation governing the agencies, which provides that any agencies created should be subject to in-depth cost-benefit analysis, will now be applied strictly (new continuous structural benchmark). Agencies will be required to submit strategies to be used as a basis for the signing and implementation of performance contracts. This process will begin in 2014 with the five largest agencies (new structural benchmark). Last, the Ministry of Economy and Finance will conduct infra-annual financial monitoring of the agencies' activities. Quarterly reports will be produced and shared with IMF staff.

20. **Implementation of West African Economic and Monetary Union (WAEMU) directives is continuing.** Quarterly budget outturn reports are regularly forwarded to the National Assembly and published. The Multi-year Economic and Budgetary Programming Document (DPBEP 2014–2016) has been produced, although it has not been discussed by the National Assembly. Further work involved codification of budget programs and functional classification to finalize implementation of the new state budget nomenclature (NBE). In terms of public accountability, the final report on execution of budget laws for the 2011 fiscal year, which accompanies the draft settlement law, was submitted to the National Assembly in August 2013. The draft settlement law for the 2012 fiscal year has been submitted to the Audit Court for assessment. As for the use of decrees on advances, only three were issued on an exceptional basis in accordance with the current regulations. The first two regulations were based on commensurate cancellations of appropriations, and the latter regulation was based on exceptional revenue (leasing) collected from SUNEOR, and a fee paid by Dubai Ports World. All of these decrees were forwarded to the National Assembly Finance Committee, as dictated under the 2011 organic law with respect to budget laws.

21. **Tools were established to improve accounting, budget, and financial information.** They include the requirement to transmit quarterly reports on budget outturn to the treasury by the parastatal sector and the interface between the budget management system (SIGFIP) and the accounting system (ASTER) that can be used for monthly reconciliation of budget and accounting data. The interface between ASTER and SIGFIP, which should enable automatic authorization of payments in SIGFIP, will be completed no later than end-June 2014. Moreover, a draft instruction will be validated by end-2013 to enable all of the old treasury account balances to be cleaned up in 2014. A plan to implement a double-entry accounting system to be used by the accountants responsible for collections is being studied by the Directorate-General of Public Accounting and Treasury (DGCPT). Last, in connection with implementation of the single treasury account (CUT), a system will be established by end-April 2014 to enable the Treasurer General to have access to information on the balances of bank accounts opened in the name of direct accountants of the treasury on the books of the Central Bank of West African States.
22. **Management and control of the wage bill** will be improved through (i) implementation of the new payroll management software planned for the beginning of January 2014; and (ii) provision of a tool for forecasting and control of wage bill execution in partnership with the Regional Technical Assistance Center for West Africa (AFRITAC West). The wage bill will be integrated into SIGFIP in connection with the interface between SIGFIP and the new payroll management software. The payroll register will be cleaned up after the ministry responsible for the civil service publishes the results of the physical and biometric audit of government staff.
23. **Cost-benefit analysis will be used more extensively.** An objective of one third of capital expenditure included in the 2015 budget will be subject to such analyses. The analyses conducted on the five largest investment projects included in the 2015 budget will be forwarded to the National Assembly at the same time as the draft budget law (new structural benchmark).

## E. Private Sector Development

### a. Energy sector

24. **The plan to develop energy production for 2013–2017 is based on an energy mix policy combining coal, natural gas, hydroelectricity, and renewable energy sources.** The plan provides substantial supplementary capacities that will yield an abundant supply of energy and lead to a large reduction in production costs. This effort should generate a gradual reduction in the weight of the electricity sector in the budget, which is expected to exceed 2 percent of GDP once again this year. Implementation of this plan, which has been delayed, will be accelerated and subject to regular communication with the stakeholders. It covers the following installations: the 15 MW Félou hydroelectric power station in 2013; a 70 MW independent power producer (IPP) in Tobéne (Taiba Ndiaye) in 2015; a 125 MW coal-fired IPP (Sendou) at end-2015; 80 MW in imports from the Mauritania natural gas plant at end-2015; a 250 MW coal-fired IPP with Kepco in 2017–18; and renewable energy projects. Fallback projects were negotiated in light of the delays in negotiations and implementation lags. An agreement was signed with Africa Energy for a 300 MW coal-fired IPP in Mboro in 2016. Further investments are planned in transportation and distribution systems

through the strengthening and modernization of networks, substations, and high tension lines. To reach the objective of 60 percent rural electrification by 2016, a three-year priority rural electrification program (2014-2016) is currently being prepared.

25. **The performance contract between the state and SENELEC signed in June 2013 will be implemented in a transparent manner.** A monitoring committee for the performance contract will meet at least once every quarter to examine the monitoring reports submitted by SENELEC. The report from the monitoring committee and the performance agreement audit will be published to keep the various parties informed of progress made in this area. The first publication will entail a survey of the electricity sector, including the financial situation, and the authorities' reform strategy for the sector. This assessment and strategy will be subject to consultation with the key stakeholders in the sector and will serve as a basis to produce shared diagnostics (new structural benchmark). The 2012 accounts for SENELEC were certified in November 2013.

26. **Preparation of a strategic reform plan for Société Africaine de Raffinage (SAR) was delayed so its board of directors could become more effectively involved.** A study on the industrial future of SAR and its role in supplying the country with petroleum products was awarded to a consultant following a bidding process. The conclusions of this study will be examined during the SAR's general shareholders' meeting scheduled for end-2013.

#### **b. Financial sector**

27. **The updating of the action plan for national consultation on credit, which had been delayed, was completed.** All measures under the plan were re-examined, and new deadlines were proposed to replace those that had expired, while other activities found to be no longer relevant were reformulated or eliminated. Accordingly, an updated, operational action plan was produced at end-May 2013. It comprises 65 operational measures, including 47 with fixed deadlines (24 of which have already been completed) and 18 continuous. Implementation of the plan should be completed by end-2014. Key measures include the following: (i) promotion and development of factoring; (ii) reduction in delays for registration of guarantees or pledges; (iii) reduction of lags in obtaining statements on liens from the courts; (iv) institution of a register with the court registry to enable nontrade entities to register mortgages and pledges on real property; (v) accelerated implementation of the risk reporting and analysis center for microfinance institutions (SFDs).

## **F. Other Factors to Improve the Business Climate, Governance, and Competitiveness**

28. **The commission on land reform, established at end-2012, has become operational.** This reform is designed to establish transparency in both rural and urban land management. In fact, high levels of demand from private investors for access to rural land required for the development of structuring activities has led to a need for an overhaul of the land legislation and the definition of property policy so that a more balanced approach to land management can be applied. An inclusive reform approach will be used, and this commission's work will be completed in 2015.

29. **Implementation of the reform program for the business climate and competitiveness continues (2013–2015).** Progress has been made in the establishment of businesses, with 24 hours only needed for corporations and plans for the process to be fully electronic by end-2013. The new entrepreneurial regulations should be incorporated into the Senegalese legislation by end-2013. The procedure for electronic filing and assessment of applications for construction permits has been undertaken and should make it possible to obtain permits in Dakar in 28 days. The merger of property registration and publishing procedures for transactions published in the property register has become effective, and the ownership transfer rate was reduced from 15 percent to 10 percent. Transaction authorizations were eliminated, making it possible to reduce the delay by 50 days. Improvements in commercial justice to provide better protection for investors have led to reduced contract execution delays. The legal and institutional framework for public-private partnerships is now being revised. Adoption of the new law is planned for November 2013. Full use of the automated procedure for cross-border trade, effective from March 2013 for pre-customs and customs clearance procedures, has led to a reduction of import and export periods to a maximum of nine days.

## **Program Monitoring**

30. In light of the preceding sections, a number of changes in program monitoring mechanisms are desirable. End-June 2014 quantitative assessment criteria and targets for end-December 2014 are proposed. The same applies for the structural benchmarks provided in Table 4 of the MEFP. The ceiling on semiconcessional borrowing (financing having a grant element of 15–35 percent) would be increased from CFAF 67 billion to CFAF 132 billion; this would require a modification of the assessment criterion for end-2013. The seventh PSI review should normally be concluded by end-June 2014 and the eighth review by December 2, 2014.

**Table 1. Quantitative Assessment Criteria and Indicative Targets for 2012–2013**

	(CFAF billions, unless otherwise specified)										
	December 31, 2012		March 31, 2013			June 30, 2013			September 30, 2013		December 31, 2013
	Prog.		Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.
<b>Assessment criteria <sup>1</sup></b>											
Floor on the overall fiscal balance <sup>2 3</sup>	-425		-101	-20	met	-203	-190	-155	met	-304	-406
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US\$ millions) <sup>4</sup>	500		500	300	met	800	...	300	met	800	800
Ceiling on spending undertaken outside normal and simplified procedures <sup>4</sup>	0		0	0	met	0	...	0	met	0	0
Ceiling on government external payment arrears (stock) <sup>4</sup>	0		0	0	met	0	...	0	met	0	0
Ceiling on the amount of the budgetary float	50		50	25	met	50	...	46	met	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent <sup>4</sup>	44		44	0	met	67	...	0	met	67	132
<b>Indicative targets</b>											
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20		20	13	met	20	...	14	met	20	20
Floor on social expenditures (percent of total spending)	35		...	...	...	35	...	35	met	...	35
Floor on tax revenue	...		...	...	...	...	...	...	...	...	1,434
<b>Maximum upward adjustment of the overall deficit ceiling owing to</b>											
Shortfall in program grants relative to program projections	15		15	...	...	15	...	-9	...	15	15
Excess in concessional loans relative to program projections	50		50	...	...	50	...	-22	...	50	50
<b>Memorandum items:</b>											
Program grants	48		10	...	...	19	...	10	...	29	38
Concessional loans	323		52	...	...	111	...	89	...	156	221

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

<sup>2</sup> Cumulative since the beginning of the year.

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

<sup>4</sup> Monitored on a continuous basis.

**Table 2. Quantitative Assessment Criteria and Indicative Targets for 2013–2014****Table 2. Quantitative Assessment Criteria and Indicative Targets for 2013–14**

	(CFAF billions, unless otherwise specified)				
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	Prog.	Prog.	Prog.	Proj.	Proj.
<b>Assessment criteria <sup>1</sup></b>					
Floor on the overall fiscal balance <sup>2 3</sup>	-406	-100	-198	-297	-396
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US\$ millions) <sup>4</sup>	800	800	800	800	800
Ceiling on spending undertaken outside normal and simplified procedures <sup>4</sup>	0	0	0	0	0
Ceiling on government external payment arrears (stock) <sup>4</sup>	0	0	0	0	0
Ceiling on the amount of the budgetary float	50	50	50	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent <sup>4</sup>	132	132	132	132	132
<b>Indicative targets</b>					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	20	20	20	20
Floor on social expenditures (percent of total spending)	35	...	35	...	35
Floor on tax revenue	1,434	374	781	1,156	1,561
<b>Maximum upward adjustment of the overall deficit ceiling owing to</b>					
Shortfall in program grants relative to program projections	15	15	15	15	15
Excess in concessional loans relative to program projections	50	50	50	50	50
<i>Memorandum items:</i>					
Program grants	38	10	21	32	42
Concessional loans	221	65	119	178	237

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

<sup>2</sup> Cumulative since the beginning of the year.

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

<sup>4</sup> Monitored on a continuous basis.

**Table 3: Structural Benchmarks**

Measures	MEFP § 03/06/ 2013	Implementation date	Benchmark for review	Macroeconomic importance	Status
<b>INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT</b>					
Submit new Customs Code to Parliament	18	Rescheduled to September 30, 2013	6 <sup>th</sup>	Increase the government resources and encourage private sector development	Implemented in November 2013
<b>CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT</b>					
Produce a plan to restructure all agencies and comparable entities	22 (prev. MEFP)	July 31, 2013	6 <sup>th</sup>	Strengthen public financial management	Implemented in November 2013
Roll out the new payroll management software	12	August 31, 2013	6 <sup>th</sup>	Strengthen public financial management	Not met
Use cost-benefit assessment for investment projects exceeding CFAF 10 billion to be included in the budget for 2014	24 (prev. MEFP)	July 31, 2013	6 <sup>th</sup>	Improve efficiency of government expenditure	Not met
Submit to the Assembly a draft law on disclosure of assets	19	January 1, 2014	7 <sup>th</sup>	Strengthen fiscal transparency	Implemented in November 2013
<b>PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, ENHANCING GOVERNANCE, AND ACHIEVING GREATER EFFICIENCY IN THE ENERGY SECTOR</b>					
Roll out on-line filing and on-line payment of taxes for all tax payers in the Dakar area	17	June 30, 2013	6 <sup>th</sup>	Enhance efficiency of government and improve the business climate	Implemented in November 2013 for taxes on imports; implementation expected in December 2013 for other taxes
Roll out on-line filing and on-line payment of taxes for large enterprises	17	January 1, 2014	7 <sup>th</sup>	Enhance efficiency of government and improve the business climate	Ongoing

**Table 4 of the MPEF: New Structural Benchmarks**

Measures	MPEF Para- graph	Application date	Bench- mark for review	Macroeconomic importance
All agency creation will be subject to an in-depth cost-benefit analysis.	19	Continuous	Continuous	Improve the quality of public expenditure and transparency
Presentation by the five largest agencies of strategies and implementation of performance contracts.	19	June 30, 2014	Eighth	Improve the quality of public expenditure and transparency
The cost-benefit analyses carried out on the five largest investment projects included in the 2015 budget will be sent to the National Assembly at the same time as the draft budget law.	23	October 15, 2014	Eighth	Improve the quality of public expenditure and transparency
The reports of the SENELEC performance contract monitoring committee and the audit on implementation of this performance contract will be covered by publications. The first publication will include a survey of the electricity sector, including its financial situation, as well as the strategy of the authorities for reform of the sector. This assessment and strategy will be subject to consultation with the main stakeholders in the sector.	25	March 31, 2014 (for the first report)	Eighth	Promote private sector development

## Attachment II: Technical Memorandum of Understanding Dakar, December 5, 2013

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2011–2014. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

### Program Conditionality

2. The quantitative assessment criteria for end-December 2013 and end-June 2014, and the quantitative targets for end-March and end-September 2014, are shown in Tables 1 and 2 of the MEFP, respectively. The structural benchmarks established under the program are presented in Table 3 and Table 4.

### Definitions, Adjusters, and Data Reporting

#### A. The Government

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

#### B. Overall Fiscal Balance (Program Definition)

##### Definition

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

##### Example

5. The floor on the overall fiscal balance including grants (program definition) as of December 31, 2012, is minus CFAF 420 billion. It is calculated as the difference between total government revenue (CFAF 1,670 billion) and total expenditure and net lending (CFAF 2,090 billion).

## Adjustment

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

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

## Reporting requirements

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

## C. Social Expenditure

### Definition

9. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. This criterion is set as a floor in percent relative to total spending (including the FSE) excluding capital expenditure related to the extension of the autoroute and the investment projects of the power sector reform plan.

### Reporting requirements

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

## D. Budgetary Float

### Definition

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

## Reporting requirements

12. 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

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

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

## F. Government External Payments Arrears

### Definition

15. 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 17 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

### Reporting requirements

16. 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

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

- a) The term "debt" will be understood to mean a direct, i.e., non-contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more

payments in the form of assets (including currency) or services, according to a given repayment schedule; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- b) Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

19. **Debt concessionality.** For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;<sup>1</sup> the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.<sup>2</sup> The discount rate used for this purpose is 5 percent.

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

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

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

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

22. **Special provisions:**

a) The assessment criteria do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the PSI; (ii) debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport; and (iii) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.

b) A total ceiling of US\$800 million applies over the period 2011–14 for nonconcessional external debt financing to be used for investment projects, including in road infrastructure, the energy sector, and urban water and sanitation, and to reduce the recourse to regional market financing. Following the issuance of a Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2013–14 is US\$500 million.

c) A separate ceiling equivalent to CFAF 132 billion in 2011–14 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

### **Reporting requirements**

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

## H. Public Sector Contracts Signed by Single Tender

### Definition

24. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered “single-tender” contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector contracts entered into by the government or any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude fuel purchases by SENELEC for electricity production. This exclusion reflects new regulation, which requires SENELEC to buy fuel directly from SAR based on the existing price structure.

### Reporting requirements

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

## I. Tax Revenue

### Definition

26. Tax revenue is the sum of revenue from taxes on income, goods and services, and petroleum products. The indicative target will be assessed on the basis of the data for such revenue provided in the quarterly TOFE.

### Additional Information for Program Monitoring

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

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

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

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

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

The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.

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

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

The provisional monthly balance of the Treasury accounts; and

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

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

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

29. The central bank will transmit to Fund staff:

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

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

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

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

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

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

- a) Preliminary TOFE and transition tables with the delay of 2 months.
- b) SIGFIP execution table, the table for the central government and a summary table including regions, with the delay of 2 weeks
- c) The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with the delay of 1 month.
- d) Full information on: (i) the operations of Energy Sector Support Fund (FSE); (ii) investment projects in the power sector; (iii) planning and execution of these projects; (iv) details of financing and updated costs; and (v) the balance of the escrow account with the resources of the Eurobond issued in 2011 (within 3 weeks).