

International Monetary Fund

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May 26, 2016

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

May 6, 2016

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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.

Letter of Intent

Dakar, Senegal

May 6, 2016

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 modification of the end-June 2016 assessment criterion on net lending/borrowing and the end-June 2016 indicative target on tax revenue and the completion of the second review of its macroeconomic program supported by the Policy Support Instrument (PSI) for the period 2015–17. Details of this program were described in the initial Memorandum of Economic and Financial Policies (MEFP) of May 8, 2015. In support of this request, the attached MEFP reviews program implementation and updates the government's short- and medium-term objectives and policies under the program.
2. Progress has been recorded in the area of structural reform, with six (06) structural benchmarks achieved at end-2015 out of a total of ten (10). Of the four (04) benchmarks not met, one has been met and another will be met by June 2016. Indeed, the government has collected additional tax revenue arrears to reach the 50 percent of the stock of recoverable claims recorded as at December 31, 2014. This was done with a small delay in April 2016 instead of the envisaged December 2015. Furthermore, three (03) performance contracts involving government agencies will be added to the five (05) already signed. With regard to measure pertaining to the debt path and the corrective measures to be applied in the coming years in case this path is overshoot, the measure in question will be observed at the time of the next budget law.
3. Going forward, two new benchmarks have been added—in particular, the establishment of an entity within the DGID [General Directorate of Taxes and Government Property] specializing in the recovery of difficult claims, and the implementation of an action plan to reduce tax expenditures. Other measures have been adopted in connection with: the signing of the decree closing five (05) agencies that have no personnel and which exist only in a legal sense; and the government's decision to make public its position on *Sénégal Airlines*. The decree on the remuneration of general directors and members of the decision-making bodies of agencies and comparable entities will also be signed.

4. The government believes that the policies and measures set forth in the attached MEFP are appropriate for achieving the objectives of the PSI-supported program. Given its commitment to macroeconomic stability, the government will continue to take any additional measures needed to safeguard growth momentum and diversify its sources, to strengthen the economy's resilience in a difficult international environment and a subregional context vulnerable to security hazards, and to ensure the stability of the macroeconomic framework, consistent with program objectives. The government will consult with the IMF—at its own initiative, or whenever the IMF Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

5. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report.

Sincerely yours,

/s/

Amadou BA
Minister of Economy, Finance, and Planning

Attachments: I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies, 2015–17

1. This Memorandum updates the Memorandum of November 24, 2015 on our economic and financial program supported by the Policy Support Instrument for the period 2015-2017.

It reviews recent economic developments and describes the policies that we plan to implement during 2016, the third year of operations under the "Emerging Senegal Plan" (*Plan Sénégal Emergent*, PSE).

RECENT ECONOMIC DEVELOPMENTS

2. On the domestic front, implementation of the Emerging Senegal Plan has given a boost to the national economy. Economic activity revived significantly in 2015, with real GDP growth estimated at 6.5 percent, compared to 4.3 percent in 2014. This favorable development can be attributed essentially to the performance of agriculture, combined with a return to vigorous growth in the secondary sector. The agriculture sector has benefited from several factors, in particular: (i) implementation of the agriculture program, marked by the provision of inputs and better control of the technical systems of production; and (ii) abundant rainfall, which was well distributed both over time and geographically. The vigorous performance of the secondary sector reflects the healthy pace of activity in refining and in the chemical industries, cement factories, and the energy and construction sectors. The services sector, on the other hand, has performed less well, under the impact of a slowdown in posts and telecommunications and difficulties in the tourism area. In terms of inflation, the level of the consumer price index has remained low (-0.1 percent), reflecting the moderation in world prices. The current account deficit on the balance of payments has improved, thanks in particular to the strength of exports and the weakness in oil prices.

3. Implementation of the program remains on the whole satisfactory. All the end-December 2015 assessment criteria have been met. However, the indicative target on government procurement conducted under direct contracting was missed due to the speed-up in implementing the rural electrification program, which involved a special "spontaneous tenders" procedure.

4. The fiscal deficit target of CFAF 389 billion (4.8 percent of revised GDP) was respected, despite the sharp rise in interest charges on the external debt. The government has continued its efforts to rationalize expenditures on public consumption in order to encourage investment in human capital and in public infrastructure. The payroll policy has achieved some success: thus, wage costs were contained within a ceiling of CFAF 526 billion in 2015. Moreover, the 2016 budget makes provision for transferring the personnel costs of institutions (CESE [the Economic, Social and Environmental Council], National Assembly) to the current expenditure account. The "precautionary reserve" has been extended to operations in the 2016 budget (CFAF 18.7 billion for operations and CFAF 44.4 billion for investment).

5. Progress has also been made in the area of structural reforms, with the achievement of three structural benchmarks, for which the planned deadline was the end of 2015. In fact, the

platform for distribution of the NINEA ("National registration number for enterprises and associations") as the single identifier is now operational. The automatic sharing of fiscal data, which constitutes the second phase of the project, is now in the process of becoming operational. The TOFE (government financial operations table) is being produced in accordance with the 2001/2014 GFSM. To round out the minimum framework for preparing the TOFE, which depends on the introduction of a proper accruals-based accounting system for the State, the target date should be set at 2017. With respect to the other structural benchmarks, some important steps have been taken, especially those relating to the recovery of unpaid taxes, with the receipt of some CFAF 56 billion to the end of 2015. The target of collecting 50 percent of the stock of recoverable claims at end-December 2014 was met in April 2016. However, the computer system of the DGID [the General Directorate of Taxation and State Properties] is not yet able to distinguish automatically between recoveries against old and new claims. With respect to the plan for reforming the agencies, the restructuring process is continuing. Five performance contracts have been signed with the agencies, against an initial commitment of eight. Three performance contracts have also been signed with public institutions. The development of a management strategy for government and public enterprise investment portfolios is being pushed back from end-March 2016 to end-September 2016 to give time for building consensus.

Box 1. Senegal: Significant Improvement in Fiscal Management

- i) The wage bill in the 2015 budget was projected at CFAF 526 billion. It is being rigorously monitored in order to avoid any slippage. A stepped-up system for controlling compensation for supplementary work and controls on overtime hours have been implemented in order to stay below the maximum authorized ceiling of 60 hours per agent per month, and it has succeeded in holding the cost to CFAF 11.7 billion, against budget forecasts of
- ii) CFAF 18 billion. Similarly, the hiring [*mises en solde*] on contract of professors and teachers with professional degrees employed in the public service or appointed and given tenure within a group of public servants has been capped at 4,210, consistent with the provisions of the 2015 budget law.
- iii) When it comes to operating expenses, the strategy is to reduce their rate of growth, which will henceforth be limited to 5 percent, including inflation. Specifically, the strategy combines one-off measures (elimination or merger of administrative structures, cancellation of housing allowances) and permanent measures (reduction of the government telephone bill, identification and elimination of sources of points of wastage in the ongoing operation of services: reduction in grants for festivals and ceremonies, conferences, congresses and seminars, clothing and accessories, a cutback in credits for the purchase of furnishings, office materials, computer equipment, vehicles and other depreciable items).
- iv) The budgetary programming of investment outlays is still dominated by the following strategic considerations:
- improving the quality of investment by making more systematic use of ex ante assessments using the cost-benefit method;
 - refocusing of the investment budget on outlays that will have a high impact on gross fixed capital formation. To this end, a cap has been placed on the portion of operating expenditures in investment projects, which will be held to 10 percent versus 20 percent prior to 2015;
 - elimination of all so-called "institutional support" projects that cannot be shown to be essential.

6. There has also been some notable progress with other structural reforms. Five working groups have been set up to look closely at the following issues: (i) problem enterprises; (ii) State subsidies to enterprises; (iii) integration of parafiscal taxes into the budget; (iv) tax expenditures; and (v) the introduction of an independent accountants' network within the DGID. This work has already yielded some preliminary conclusions.

Box 2. Senegal: Preliminary Conclusions of the Working Groups

- Establish a committee to oversee decisions on disbursements of transfers and subsidies: that committee should, among other things, track the planning of decisions on transfers. The committee will also constitute a framework for sharing information among the services involved in the preparation and execution of budgets relating to transfers.
- Establish a threshold fixing the ratio of the wage bill as a proportion of operating funds in the subsidized enterprises.
- Examine the appropriateness of establishing an independent accountants' network within the DGID. This network would, among other things, take over responsibility for the direct tax rolls of the State as well as the assessment notices that are issued subsequent to fiscal audits on taxes, duties, levies and royalties that are collected by the DGID. With such a device, authorized by WAEMU, a phased process could be initiated whereby the DGID accountants, after an appropriate training program, could establish their accounts in ASTER, before moving on to the establishment of a chief accountant.
- Create a virtual "problem-solving" window for enterprises.
- Establish a cash management mechanism for enterprises undergoing restructuring.
- Examine the modalities for allocating parafiscal taxes to the State budget.

7. The decree fixing maximum levels of authorized remuneration of personnel of agencies and other assimilated structures; and the decree on the closure of five agencies that have no staff and that exist only "on paper"; have been signed. In addition, the decree setting the maximum remuneration of the Directors General or Directors, Presidents and members of the supervisory boards of agencies and assimilated structures will also be signed. The government will make public its decision on the Senegal Airlines company before the end of April 2016. In order to monitor this reform more effectively, an ad hoc committee has been set up. The government also intends to speed the process of privatization for SUNEOR, the leading enterprise in the groundnuts sector.

8. Progress has also been made in putting into effect the WAEMU directives, in particular with the application of innovations concerning multiyear fiscal programming. In fact, the organic law of 2011 on budgets devotes an important section to work on multiyear programming, as a way of making the annual budgeting exercise more credible. Thus, in 2015, the production of documents on the budgetary programming of expenditures was generalized. In addition, the document on multiyear budgetary and economic programming has been produced on a timely basis, and the debate on budgetary orientation has been held within the legal time limit since 2013.

9. There have also been some improvements in the process of formulating the program budget, with the identification of budgetary programs on the basis of the existing sector policy letters and the mandate letters. A total of 129 programs, articulated with the three key components

of the Emerging Senegal Plan, have been identified in a participatory way in cooperation with all the technical units of the 30 ministries, and have been the object of a test run in the SIGFIP software.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2016

10. The main objective is to establish conditions conducive to stronger, more inclusive growth for meaningful poverty reduction. For 2016, GDP is projected to grow at 6.6 percent. To achieve this target, the government will have to step up the pace of implementation of the projects and reforms in the PSE, especially in energy, agriculture (rice and horticulture branches), tourism, mining and infrastructure. Moreover, implementation of the major projects announced at Diamniadio (exhibition grounds, five-star hotel, the "city of knowledge", the Amadou Moctar Mbow University, etc.) will have to be speeded up. In order to open economic room for SMEs and FDI (foreign direct investment), a governance structure will be created for the Special Economic Zones (ZES). The idea here is to promote a regulatory environment favorable to business, including a tax regime with a moderate tax rate and minimal tax expenditures.

11. Inflation should remain within the range of 1 to 2 percent. The current account deficit (as a percentage of GDP) should be 6.1 percent of GDP in 2016, and should decline thereafter.

12. In order to keep growth buoyant, to make it more inclusive and to fortify the economy's resilience to internal shocks as well as those inherent in the international setting and the context of insecurity within the subregion, the IMF-supported program will revolve around the following three aims: (a) rebuild the government's fiscal space; (b) strengthen public financial management and governance; and (c) improve the business environment.

A. Rebuild the Government's Fiscal Space

13. The target for the fiscal deficit in 2016 is set at CFAF 372 billion. However, revenues have been revised upwards by 35 billion, thereby making it possible to take on additional expenditures, notably with respect to the wage bill (incorporation of contractual teachers and professors into the payroll, backlog of pending compensation for appointments and promotions).

14. In its revenue collection efforts, the DGID will rely essentially on close monitoring of taxpayers and broadening of the tax base. Cooperation between the DGID and the DGD (General Directorate of Customs) will be strengthened through the exchange of information, in particular. With respect to outstanding balances, considering that "problem" assessment notices are concentrated in the hands of a minority of taxpayers who adopt increasingly complex means of avoidance, a specialized structure (an office or division) for the recovery of problem tax claims will be established by the end of September (structural benchmark). In the case of recoverable assessment notices, the DGID will institute procedures for forced recovery against debtors who have not signed, or are not complying with, a moratorium agreement. In addition, in order to handle the recovery of these assessments more effectively, the government plans to introduce case management units within each recovery office. These reforms are intended to ensure the recovery or

settlement of an amount equal to at least 50 percent of the stock of outstanding assessment notices as of December 31 of each year. The amount to be recovered will be determined before the month of May and will be reported to the IMF. Withholdings linked to non-commercial profits [*bénéfices non commerciaux*] have also been the object of a diagnostic assessment, together with solutions for reversing their downward trend.

15. The contribution of the Customs Administration in mobilizing government tax revenues will be based on: (i) broadening the tax base through better control over imports by the informal sector; (ii) reprofiling and better monitoring of the customs clearance of potentially revenue-yielding products; (iii) stepping up the campaign against unfair competition, which affects the majority of problem companies.

16. Further steps will be taken to rationalize tax expenditures. Based on the 2013 report on tax expenditures and the conclusions of the working group established for this purpose, an action plan will be adopted by the government before the end of September 2016 (structural benchmark).

17. The government intends to enhance transparency in the management of State subsidies to university institutions. The financial management of public universities has not yet achieved the minimum level required to ensure transparency and honesty in the programming and execution of their budgets, and in particular the subsidies granted by the State. Non-mandatory expenditures are given priority to the detriment of salary costs. Many of these institutions are failing to make timely submission of their preliminary budgets for approval by the technical and financial oversight body prior to release of government subsidies. For 2016, the governance bodies that are supposed to adopt the preliminary budgets have not even met, with the exception of those for the universities of Bambey and Cheikh Anta Diop. For this reason, steps will be taken to ensure that, as of the 2016 budgetary amendment law, appropriations not yet committed will be distributed by heading, within the integrated public finance management system, among the different categories of expenditure, such as personnel (heading 2) and procurement of goods and services (heading 3). For the year 2017, this distribution by heading will be mandatory, and release of the government subsidy will be subject to prior approval of the preliminary budget by the technical and financial oversight bodies.

18. The government will impose budgetary constraints on hiring in all sectors. The instruments needed to implement this measure will be in place by September 2016. In this context, and applying rules that will guarantee the necessary balance among all sectors, contract personnel in education, health, social action and vocational training will be integrated into the payroll as of 2017.

19. The government intends to enhance the efficiency of investment. To this end, it will develop rigorous criteria for the selection and ranking of projects. All project proposals will be recorded in a project pipeline ["bank of projects"] and they will have to be subjected to a rigorous analysis before they can be included in the budget. Letters to this effect have been sent to the line ministries, asking them to select at least 20 projects for which feasibility studies will be performed in

the course of the year. The projects thus examined will be given priority in the Consolidated Investment Budget (*Budget Consolidé d'Investissement*, BCI). Implementation of the platform (the integrated project database, a SB set for September 2016) describing the lifecycle of the projects is continuing, but has encountered delays. This platform will be equipped with the functionalities and interface features necessary for communication between the line ministries and the MEFP (Ministry of Economy, Finance and Planning).

20. Improving the efficiency of investments in financial and nonfinancial assets is also one of the concerns identified by the authorities. Although the government portfolio includes many strategic assets, it is not managed in a coherent manner. To rectify this, a management strategy for government and public enterprise portfolios will be finalized, together with an action plan, no later than the end of June 2016 (structural benchmark, June 2016).

21. The government will conduct an ex ante assessment of all projects financed under a public-private partnership (PPP), pursuant to the law on partnership contracts and in accordance with the decree implementing the law. The government will use the best criteria for analyzing the budgetary implications of all projects of this kind, and will ensure that they are fiscally sustainable. The MEFP will take the steps necessary to determine the modalities for financing the PPPs and will ensure that the operating risks for these projects are borne by the private operators under the contracts.

22. The government has established strict performance criteria for the allocation of the supplementary funds that will accompany the circular letters on budget preparation. The ministries in receipt of these resources will be required, in return, to undertake innovative structural reforms that will yield added value in terms of the quality of budgetary programming. However, with the advent of program budgeting now in sight, the new approach to budgeting will be based on an allocation of budgetary resources that reflects the way public policies are being implemented.

23. The government will consider the possibility of mobilizing nonconcessional external loans in 2016. It could turn to international financial markets or use the nonconcessional facilities of multilateral donors, which are equipped to finance large projects within short time frames. These resources would be earmarked for financing investment projects, particularly in infrastructure, energy, water and sanitation.

24. Senegal is now recognized as a country with the capacity to manage its debt autonomously. To improve debt management capacity in the absence of borrowing limits in the program, the government will: (i) continue to develop a medium-term debt strategy to be appended to the budget; and (ii) for the next budget, it will announce the central government debt ratio deemed sustainable over five years with a commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows (structural benchmark, October 2016); and (iii) introduce a database and establish a mechanism for monitoring all external and domestic debt taken on by public enterprises and all collateral set aside by the

government on this debt. The National Public Debt Committee (CNDP) will also be strengthened and expanded to cover other government departments.

B. Strengthen Public Financial Management

25. Supervisory control over the agencies will be stepped up. The creation of any new agency will be preceded by an impact study, consistent with the law establishing the policy on agencies. As well, the government intends to sign performance contracts with three agencies no later than the end of May 2016.

26. Work on implementing the "Treasury single account", TSA (*compte unique du Trésor, CUT*) will be completed. The extension of the first-generation TSA to all bank accounts within the network of accounting staff in public institutions and agencies is completed. The second-generation TSA will be deployed and operational as of June 2016. The TSA will be finalized in December 2017, and the assessment criteria for the accounts that are to be "repatriated" will be established.

27. Work is continuing on the assessment of government assets. The sectoral technical committee is pursuing its work on accrual basis accounting with the initiation of the government's opening balance.

28. Budgetary and accounting reforms are continuing. The budgetary action plans place the emphasis on the process of implementing program budgets and on the decentralization of payment orders, among other matters. In 2016, all ministries will be expected to prepare their "multiyear expenditure programming document" (*Document de Programmation Pluriannuelle des Dépenses, DPPD*, of general application since 2015) for 2017-2019. With respect to the reform of accounting, the public finance statistics and reporting system is now being improved with the adaptation of the SIGFIP and ASTER to the new WAEMU directives. Bringing the dedicated applications up to standard in this way means that, by the end of 2016, support will be available for the preparation and execution of the program budget as well as for management of the new accounting system.

C. Promote the Private Sector

Energy

29. Development of the electricity sector is continuing. In 2016, additional power capacity totaling 250 MW is expected to come on stream: the Taiba Ndiaye dual oil/gas-fired power station, for 105 MW; the Cap des Biches dual oil/gas-fired power station, for 85 MW; the Bokhole solar power plant, for 20 MW; and the import of energy from Mauritania, for an additional 40 MW of power.

30. The government reaffirms its intention to continue the reform of SENELEC. Discussions have already been held with the World Bank for finalizing the production plan. The World Bank

intends to field a production planning specialist to SENELEC in order to identify the best option for developing its production facilities for validation.

Financial sector

31. The credit information bureaus (*bureaux d'information sur le crédit, BIC*) have been operational as of February 1, 2016. A public communication strategy is now being prepared in order to facilitate the granting of consent by clients of the institutions concerned.

32. To facilitate access to financial services, the government is committed to: (i) launch a comprehensive program of financial education for small and medium-sized enterprises (SMEs); (ii) pursue discussions with the private sector and the labor unions for the payment of salaries in excess of CFAF 100,000, by direct deposit to bank accounts or by any means of electronic payment; (iii) in collaboration with the technical and financial partners and the BCEAO, continue efforts to promote financial inclusion through preparation of a national strategy for financial inclusion and the digitizing of certain government payments.

33. To support the revival of the tourism sector, the government will implement the "hotel and tourism credit" fund, which will be operational in 2016. The institutional framework for that fund has been finalized with signature of the inter-ministerial decree creating the mechanism and the ministerial decree creating the Technical Committee responsible for examining the eligibility of requests for financing, prior to examination by the credit committee.

34. The government will take further steps to deepen the financial sector, by completing the procedures for the fielding of six licensed "treasury securities specialists" (SVT). These new financial market players should help to facilitate the placement of public securities issued by the Treasury, and to encourage a secondary market for such securities.

35. To strengthen the stability of the financial system, a National Financial Stability Committee has been created. In 2015 the committee focused its work on the quality of the portfolio held by the banks and the SFDs ("decentralized finance systems", *systèmes financiers décentralisés*). For the year 2016, the problems to be addressed will relate to the risk of concentration and the development of electronic money. IMF staff support to strengthen the committee's expertise may be requested.

Business climate

36. The government intends to promote the private sector as the vector for added value and for the country's emergence. To this end it will: (i) create an economic space within a ZES that will have business-friendly regulations, including a tax regime with a moderate taxation rate and minimal tax expenditures; (ii) take further steps to dematerialize administrative procedures and to make circulation within the industrial zone as rapid and easy as possible, and will review the constraints inherent in the process of registering new vehicles, prepare legal texts in the security sector, etc.; (iii) examine the possibility of creating a price risk management fund in the cotton

sector; (iv) the support or contribution of the DGD in improving the business climate will continue with finalization of the project for the customs "release ticket" (*ticket libérateur*), in two aspects: signature of the ministerial decree, and creation of the computerized platform for implementing it.

37. Work will continue on implementing the Program of Reforms to the Business Climate and Competitiveness (*Programme de Réformes de l'Environnement des Affaires et de la Compétitivité, PREAC*). Senegal has revised and harmonized the main codes governing its legal framework (Customs Code, General Tax Code, Code of Civil Procedures) and the law governing public-private partnerships, to bring them into line with best practices. In addition to simplifying the texts and rationalizing administrative procedures, the government has worked to reduce transaction costs. Sector-specific reforms have also been pursued in the tourism area (with extension of the reduced VAT to all tourism activities, and the halving of the government royalties charged on airline tickets) and in agriculture (suspension of VAT to facilitate establishment of the "anchor investor"). The second phase of the PREAC, planned for the period 2016-2018, will offer an opportunity for completing the reforms intended to reduce factor and intermediation costs in this field, particularly for port services and electricity. It will also see the finalization of structural measures in the areas of real estate, commercial justice and labor legislation, in addition to consolidating and extending dematerialized procedures, with the generalized use of remote payment ["telepayment"] for boosting the efficiency of a renewed public service.

NEW PROGRAM MONITORING INDICATORS

38. Quantitative assessment criteria have been defined for 2016. At end of March, the indicative criterion for the budgetary balance was not being met, due to the urgency of committing funds that were already budgeted, but where execution delays could threaten their effectiveness. This is the case in particular with outlays related to security against the very specific terrorist threat, and expenditures for early distribution of high quality seeds and other farming inputs as the winter season approaches.

39. Quantitative assessment criteria for end-December 2016, and quantitative indicators for end-December 2016 are being proposed and the modification of the end-June 2016 AC on net floor borrowing/lending is requested (see table 1 of the MEFP, below). The government and IMF staff have also agreed on structural benchmarks presented in table 2 of the MEFP. Reviews will take place every six months. The third review should be completed by the end of December 2016, the fourth review by the end of June 2017, and the fifth review by the end of December 2017.

Table 1. Senegal: Quantitative Criteria and the Indicative Targets for 2015–16

	2015											2016			
	Jun.			Sep.				Dec.			Mar.	Jun.	Sep.	Dec.	
	Assessment Criteria (AC)			Indicative Target (IT)				AC			IT	AC	IT	AC	
	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.	
	(CFAF billions, unless otherwise specified)														
Assessment criteria¹															
Floor on net lending/borrowing ²	-144	-138	met	-255	-264	-271	not met	-389	-387	met	-52	-202	-276	-372	
Ceiling on spending undertaken outside normal and simplified procedures ³	0	0	met	0	...	0	met	0	0	met	0	0	0	0	
Ceiling on public sector external payment arrears (stock) ³	0	0	met	0	...	0	met	0	0	met	0	0	0	0	
Ceiling on the amount of the budgetary float	50	28	met	50	...	65	not met	50	45	met	50	50	50	50	
Indicative targets															
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	5	met	15	...	22	not met	15	31	not met	15	15	15	15	
Floor on social expenditures (percent of total spending)	35	41	met	35	...	40	met	35	40	met	35	35	35	35	
Floor on tax revenue	825	796	not met	1,181	...	1,146	not met	1,583	1,597	met	398	901	1,312	1,779	
Maximum upward adjustment of the overall deficit ceiling owing to															
Shortfall in program grants relative to program projections	15	0		15	...	9	...	15	9	...	15	15	15	15	
Memorandum items:															
Program grants	15	15		28	...	19	...	40	31	...	3	13	24	35	

Sources: Senegal authorities; and IMF Staff estimates.

¹Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions.²GFSM 2014 definition. Cumulative since the beginning of the year.³Monitored on a continuous basis.

Table 2. Senegal: Structural Benchmarks for 2015–17

Measures	Target date	Status	Observations	Authorities' Comments
2015				
Sign performance contracts for eight agencies	December 2015	Not met	Five contracts have already been signed, and the remaining three will be signed by the end of May 2016	The eight contracts have been submitted to the Minister of Finance for signature
Eliminate cash tax payments above CFAF 100,000	June 2015	Met		
Institutionalize the precautionary management reserve	September 2015	Met		
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Met		
Launch the connection between the DGD and the DGID to facilitate data exchanges with the NINEA unique ID	December 2015	Met		
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Met		
For the 2016 budget, announce the debt ratio sustainable over five years with a commitment in case thresholds are exceeded; corrective measures (over four years) would be taken in the budget that follows	December 2015	Not met	The measure will be respected in the next budget law	A meeting is scheduled for mid-February to discuss the possibility of implementing the measure in a supplementary budget.
Recover at least fifty percent of taxes left unpaid in 2014	December 2015	Not met	47 percent has been recovered; the remaining 3 percent was recovered by the end of April 2016	A reformulation of the measure is proposed. The information system (IS) at the DGID does not distinguish between old and new unpaid taxes. As a result, collections for unpaid taxes for 2014 were not clearly identifiable.
Implement the agency reform plan by limiting allocated budget resources solely to the payment of wages for the 16 agencies whose dissolution is pending	December 2015	Not met	Five agencies with no formal existence will be eliminated by April 2016	The restructuring of the agencies is still envisaged in the short term as part of a revised reform plan. An assessment of the fiscal risks will be conducted and the results will be submitted to the relevant authorities for their consideration and action.
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Met		The minimum analytical framework is available although the final flow-of-funds table according to GFSM 2001/14 will only be finalized in 2016.
2016				
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016			
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	This is being pushed back to end-September 2016 to give time for building consensus	
Extend the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions	June 2016	Met		
For the next budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	October 2016			
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016			
Adopt an action plan for reducing tax expenditures	September 2016			
2017				
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017			
Introduce a medium-term budget framework	March 2017			

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015-2017. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

Program conditionality

2. The assessment criteria for end-December 2016 and the indicative targets for end-December 2016 are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

Definitions, adjusters, and data reporting

A. The Government and Public Sector

3. Unless otherwise indicated, "government" in this TMU means the central government of the Republic of Senegal. It excludes the central bank and the non-government public sector (see paragraph 4).

4. Unless otherwise indicated, "public sector" in this TMU means the government, local governments and all majority government-owned or controlled entities.

B. Net lending/Borrowing (Program Definition)

Definition

5. Net lending/borrowing (program definition), or the overall fiscal balance, is the difference between the government's total revenue and total expenditure (costs and acquisition net of nonfinancial assets). The operations of the Energy Sector Support Fund (FSE) are integrated in the TOFE. The definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

Sample calculation

6. The floor on net lending/borrowing (program definition) as of December 31, 2014 is minus CFAF 381 billion. It is calculated as the difference between revenue (CFAF 1,877 billion) and total expenditure (CFAF 2,258 billion).

Adjustment

7. The floor 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 Table 1).

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 after the end of the relative month. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance will be drawn mainly from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no 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 (as contained in the table on social expenditure).

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 expenditure (*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, pursuant to Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and the Prime Minister.

14. The authorities will report any such procedure immediately to Fund staff.

F. Public Sector External Payments Arrears

Definition

15. External payment arrears are defined as the sum of payments owed and not paid when due (in accordance with the terms of the contract) on the external debt contracted or guaranteed by the public sector. The definition of external debt given in paragraph 19 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.

Definition

17. Debt. The definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

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. 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 the debt above, arrears, penalties, and judicially awarded damages and interest 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. The guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind.)
19. External debt. External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor.

G. Public Sector Contracts Signed by Single Tender

Definitions

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 total public sector contracts entered into by the government or by any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude classified purchases and fuel purchases by SENELEC for electricity production reflected in a new regulation that allows SENELEC to buy fuel from SAR on the basis of the current price structure.

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 amount of public sector contracts and the total value of all single-tender public sector contracts.

I. Tax Revenues

Definition

22. Tax revenues are the sum of revenues from taxes and levies on income, profits and capital gains, salaries and labor, on assets; taxes on goods and services; on foreign trade and international transactions; and other tax revenues. The indicative target will be assessed on the basis of data for these revenues provided in the quarterly TOFE.

23. Specifically, petroleum revenues are the subject of specific monitoring in connection with international price trends. These are the VAT on oil, excise taxes on oil, customs duties on oil, vehicle taxes, and the Petroleum Product Imports Security Fund (FSIPP).

Additional information for program monitoring

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

(a) Three 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*). It also includes acts leading to the creation of a new agency or a new fund.

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

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

The monthly amount of expenditures committed, certified, or 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 Investment 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 and expenditures,” and between the TOFE and the net treasury position (NTP), on a quarterly basis; and

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

25. During the program period, the authorities will transmit 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.

26. The central bank will transmit to Fund staff:

- The monthly balance sheet of the central bank, with a maximum lag of one month;
- The monthly consolidated 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 Établissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, with a maximum delay of two months.

27. 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 a delay of two months;
- b. SIGFIP execution table, the table for the central government and a summary table including regions, with a delay of two weeks;
- c. The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with a delay of one month. Full information on i) the operations of the 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.