International Monetary Fund

Senegal and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under the Policy Support Instrument (PSI) and Extends Arrangement for Senegal June 26, 2017

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

June 6, 2017

Letter of Intent

Dakar, Senegal
June 6, 2017

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 fourth review and a one-year extension of support 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 June 8, 2015, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-December 2016, defines the macroeconomic objectives for 2017, and 2018 and updates the structural reforms monitored under the program.

2. Program implementation remains satisfactory overall. All quantitative assessment criteria and indicative targets under the program at end-December 2016 were met, including the fiscal deficit target, and four of the seven end-March 2017 indicative targets were met. Progress was also made on structural reforms, although the implementation of some measures took a little longer than expected.

3. The fiscal deficit will continue to be reduced in 2017 and beyond. This objective is essentially based on satisfactory revenue collection, effective control of current expenditure, and increased social spending and investment expenditure to support growth. The government plans to address the challenge of mobilizing internal resources by strengthening the tax and customs administrations and by broadening the tax base.

4. Some changes in program monitoring are advisable. The attached memorandum proposes quantitative assessment criteria for end-December 2017 and end-June 2018 in addition to new structural benchmarks. We decided to propose a new assessment criterion on the financing requirement for greater control over debt development.

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 program objectives. 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 measures contained in the attached MEFP, in accordance with the Fund's policy on such

consultation. Moreover, the government will provide the IMF with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

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, 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 2015–18

1. This Memorandum updates the Memorandum of June 8, 2015, on our economic and financial program supported by the Policy Support Instrument (PSI) for 2015–2017. It reviews recent economic developments and describes the policies that the government plans to implement for the remainder of 2017 and in the short term to build on the good macroeconomic results achieved.

RECENT ECONOMIC DEVELOPMENTS

2. On the domestic front, implementation of the Emerging Senegal Plan (*Plan Sénégal Émergent* – PSE) has given a boost to the national economy. By end-2016, the real GDP growth rate was estimated to be 6.7 percent, compared to 6.5 percent in 2015, reflecting renewed momentum in the primary and tertiary sectors, combined with good performance in the secondary sector. In the primary sector, growth was buoyed by not only the performance observed in the fisheries subsector, but also by subsistence farming, affected to a lesser degree by the winter season owing mainly to the good performance of horticulture. In terms of inflation, price trends remained modest in view of the rise in the harmonized consumer price index (HCPI), assessed at 0.8 percent, in a climate of weak commodity prices on the world market. As for foreign trade, the current account deficit is improving from 2015 owing to the impact of declining barrel prices on petroleum product imports and the sharp increase in migrant remittances.

3. Program implementation continues to be satisfactory overall. All quantitative assessment criteria at end-December 2016 were met. The quarterly ceiling on treasury float (CFAF 50 billion) and direct contracting (15 percent), and the floor on social spending (35 percent) were all observed. Tax revenue improvements combined with a continued policy to streamline public consumption expenditure have helped contain the fiscal deficit within the CFAF 372 billion target set by the program. Of the seven indicative targets for end-March 2017, four were met. The three missed are the floor on net lending/borrowing, ceiling on share of public sector contracts signed by a single tender and floor on tax revenue.

4. Significant progress was also made in meeting structural benchmarks. Of the five structural benchmarks (SBs) set for the period from December 2016 to March 2017, three were met. Of the two unmet SBs, one was implemented with delay and one (to establish accrual accounting for opening balances) has not been implemented. The government thus managed to recover more than 50 percent of pending payments (*prises en charge*) recoverable in 2016, a mobilization totaling CFAF 46.5 billion against a target of CFAF 45 billion. This share was increased to more than 60 percent before end-March 2017. With respect to the 2016 financing audit identifying cash flow gaps, the audit report of the General Inspectorate of Finance (*Inspection Générale des Finances*—IGF) has been finalized. The draft text expanding the National Public Debt Committee (*Comité national de dette publique*—CNDP) to other members was also finalized. Compliance with the structural benchmark regarding the decree to create, within the Directorate General of Taxes and Government Property (*Direction générale des impôts et domains* – DGID), an office specializing in the recovery of problem tax claims was underpinned by the global reform of the Ministry of Economy, Finance, and Planning, adopted on March 15, 2017.

5. The government continues to place central focus on the private sector, the lever for consolidating economic growth. In that respect, in order to promote business development, particularly among SMEs, the government opted to create a one-stop shop (*Maison de l'entreprise*) with a view to streamlining and better coordinating the various agencies that provide support to SMEs. A feasibility study is being finalized to that end. In the same vein, tax measures contained in the draft law on SME development will be covered in the General Tax Code (*Code général des impôts*) to remain within the framework of the law on tax incentives and take account of the need to rationalize tax expenditures. Cooperation between the DGID and the Directorate General of Customs (*Direction générale des douanes* – DGD) was strengthened through information sharing owing to the development of an exchange platform, based on the single taxpayer identification number (NINEA), and the operationalization of the automatic exchange of tax data.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2018

6. The implementation of PSE reforms and priority projects will be a determining factor in the acceleration of growth. The real GDP growth rate is projected to be 6.8 percent in 2017, reflecting a favorable outlook in the agricultural subsector, industry, and services, in a context of continued government investment and reform, particularly in infrastructure and energy. Inflation is expected to remain moderate in 2017, despite upward trends in oil prices per barrel. The current account deficit should improve as a percentage of GDP, in particular through stronger goods exports and through the control of imports and good performance of worker remittances.

7. In order to keep growth buoyant, make it more inclusive, and fortify the economy's resilience, our program will continue to revolve around the following three pillars: (i) consolidating the government's fiscal space; (ii) strengthening public financial management and governance; and (iii) improving the business environment.

A. Consolidate the Government's Fiscal Space

8. The budget deficit target is set at CFAF 349 billion, or 3.7 percent of GDP in 2017. This target is based essentially on satisfactory revenue collection, effective control of current expenditure, and increased social spending and investment expenditure to support growth.

9. The government plans to address the challenge of mobilizing internal resources by strengthening the tax and customs administrations and broadening the tax base. Focus will be placed on continuing to modernize the tax and customs administrations, strengthening tax policy, and rationalizing tax expenditures. Legislative and/or regulatory measures will be taken to repatriate, in the budget under the 2018 initial budget law, the taxes, duties, fees, and contributions that are not deducted for the benefit of the government budget and that affect operations in the mining and telecommunications sector. In 2017, together with the Energy Support Fund (*Fonds de soutien à l'énergie*—FSE), the Regulatory Authority for Telecommunications and Posts (*Autorité de Régulation des Télécommunications et des Postes*—ARTP), the Government Procurement Regulatory Authority (*Autorité de Régulation des Marchés Publics*—ARMP), the Senegalese Shippers' Council (*Conseil Sénégalais des Chargeurs*—COSEC), and the Autonomous Road Maintenance Fund of Senegal (*Fonds d'Entretien Routier Autonome* *du Sénégal – FERA*), the government will explore the possibility of repatriating a portion of their surplus in the government budget. The DGID will also be involved in the settlement, control, and collection of fees and other mining and oil revenue.

10. DGID modernization continues. To that end, the following measures will be implemented: (i) give effect, prior to the fifth review, to the new DGID organizational structure under the decree approved in April 2017 (structural benchmark); (ii) adopt a statutory instrument by the sixth review making it possible, in 2018, for medium-sized enterprises to file and pay taxes online (structural benchmark); and (iii) launch the implementation of three priority applications selected during the Hackathon organized in 2016 to the benefit of the DGID. This will involve implementing the basic infrastructure of the MTAX platform (application that allows taxpayers to file and pay their taxes using their mobile phones, without Internet access), particularly equipment, a voice server in the local language, and licensing, before the sixth review (structural benchmark). Moreover, following the audit of outstanding payments conducted by the DGID, the government is committed to mobilizing at least 50 percent of tax debt deemed recoverable, with a floor of CFAF 45 billion, by end-December 2017.

11. Customs is continuing its modernization by enhancing automation. The roll-out of the new full version of the computerized customs system GAINDE will be completed by May 2017. This new version is part of the effort to make foreign trade formalities paperless and ultimately contributes to better revenue mobilization. Moreover, it will be used as an optimization lever and a security tool for the Customs IT platform across the region. The implementation of the customs release ticket, used to reduce customs clearance times, will be effective by August 2017 for the purpose of grouping all types of payments exclusive of duties and taxes (customs, port, consignment, etc.). This centralization of customs duty payments, to the exclusion of duties and taxes, also aims to enhance procedural transparency.

12. With respect to tax policy, the potentially identified areas fall under land and mining activities, financial services, and telecommunications. Considerations on the tax system applicable to these sectors should lead to the proposal of legislation on the rationalization and/or simplification of taxation.

13. Further steps will be taken to rationalize tax expenditures. Based on the most recent report (dated 2014) on tax expenditures and the conclusions of the working group established for this purpose, the action plan will be revised by the government. This action plan will be implemented in order to reduce tax expenditures. In this context, useful provisions will be taken to limit discretionary measures and foster a comprehensive approach based on rules published on the Internet applicable to everyone **(structural benchmark for the sixth review).**

14. The momentum to rationalize public consumption expenditures will continue. To that end, the government will continue to ensure strict control of wage bill increases by implementing a policy to revamp recruitment practices in the civil service for the time needed in order to meet the needs and requirements of projects, reforms, and actions contained in the PSE. The structure of the civil service workforce should therefore change with technical profiles and new competencies, in line with the plan to modernize the civil service, combined with the administration of service and results sought by the Head of State. Furthermore, the government will define, in the initial budget law for 2018, job ceilings by ministry and institution, in order to streamline the job creation process, set an overall job quota for all ministries, and oversee recruitment during the year by ministries.

15. Improvement of the quality of public spending financed using internal resources continues to be a major challenge. The government therefore plans, as of the second year of implementation of a project whose total cost is higher than or equal to CFAF 1 billion, to require that payment appropriations be included in the finance law upon production, by the ministry concerned, of a physical and financial implementation report for the previous year. Moreover, in order to steer expenditures toward gross fixed capital formation, the government undertakes to review Decree No. 2012-673 of July 4, 2012, regarding the government's budget nomenclature. Lastly, the integrated project bank will be operational, and a public investment selection committee will be established (**structural benchmark for the sixth review**). An action plan will be implemented to incorporate, into the platform, the flow of projects that are significant in terms of impact on growth.

B. Strengthen Public Financial Management and Governance

16. Public administration reform is ongoing. In the short term, it will focus on the following actions: (i) finalize jointly with the Ministry of Finance, as soon as possible, the development and implementation of the public administration modernization support program; (ii) start preparation of the second edition of the Forum scheduled for 2018; (iii) submit, for approval by the Council of Ministers, the draft regional administration framework law and the draft decree on the Deconcentration Charter (*Charte de la déconcentration*); (iv) accelerate the process of passing the draft law on the Code of Ethics for Public Officials (*Code de déontologie générale des agents publics*); (v) continue to develop the new civil service law, together with a balanced, fair, and attractive remuneration system; and (vi) initiate the process of adopting the Administration Quality Charter (*Charte Qualité de l'Administration*).

17. The government plans to finalize the fiscal and accounting reforms as well as the adjustment and re-engineering of financial information systems over the 2017–2019 period. However, drawing on its recent experience, it intends to find a more tried-and-true strategy, particularly in relation to administrative organization and training for officials. It is not just a matter of establishing the fiscal program structure, but also acting on the quality of public management and the performance of public action. Already, the creation of the Directorate General of Budget (*Direction générale du Budget*—DGB) in place of the Directorate General of Finance (*Direction générale des finances*—DGF) is part of this new approach favoring public spending efficiency.

18. The government will transpose the last two directives of the harmonized public finance framework on, respectively, the financial regime of local authorities and material accounting. They are of capital importance because of their usefulness, particularly in broadening the scope of the table of government financial operations (*Tableau des opérations financières de l'État*—TOFE) relative to the *Government Finance Statistics Manual*.

19. The modernization of the Treasury will continue. More specifically, payment systems and the process of digital transformation and automation of Treasury administration procedures will be modernized in accordance with the 2016–2018 performance contract and the Strategic Development Plan (*Plan de développement stratégique*).

20. The government will consolidate the effectiveness of the second-generation Treasury Single Account (TSA) and will thus finalize the TSA in December 2017. The TSA amplifier is now the Automated Interbank Clearing System (SICA) and Regional Real-Time Gross Settlement System (STAR), the central bank's automated clearing and settlement system whose gradual roll-out will consolidate, on the one hand, the automated settlement of government expenditures through the General Treasurer account at the BCEAO and, on the other hand, the closure of bank accounts for accounting items. Lastly, concerns regarding the account identification and closure process, for which reports are produced, are therefore taken into consideration systematically.

21. The Treasury strategic plan also poses the question of parapublic sector management, in the sense of public limited liability companies. At a time when public resources are increasingly steered toward investment with high value-added and/or strong social utility, it is realistic to turn parapublic sector enterprises into net government budget contributors, instead of entities that generate fiscal risk with negative impacts on the government budget. Every effort will therefore be made to operationalize the government portfolio management strategy through three strong actions: (i) identify government holdings abroad; (2) make the interministerial committee for the restructuring of struggling enterprises operational; and (3) put in place the financing mechanism for plans to restructure struggling enterprises. The government reaffirms its commitment to take every step necessary to privatize SONACOS in 2018 and to streamline the number of agencies.

22. Cash flow management problems persist and have been exacerbated by, in particular, the accumulation of deposit account credit balances and the financial challenges experienced by La Poste, Senegal's postal service. The audit mission conducted by the General Inspectorate of Finance made it possible to perform an exhaustive assessment of the situation, including identifying sources of current cash dispersion, and to draw up a plan for absorbing the gap. The recommendations made include: (i) restructuring SN La Poste; (ii) reforming the National Pension Fund (*Fonds National de Retraite* – FNR); and (iii) thoroughly analyzing the credit balances of deposit accounts and government debt burden-mitigating revenue (*recettes d'ordre*). Pending the restructuring of SN La Poste, the government will proceed with configuring in SICA the clearance of postal checks presented by the clientele, other than in La Poste internal accounts, in strict compliance with the provisions of the agreement binding the corporation to the Treasury.

23. The restructuring of La Poste will be a government priority in 2017. Restructuring action that is decisive but beneficial for both the government and the public service institution, based on a financial and operational diagnosis, will be taken and will essentially revolve around: (i) the signature of an agreement on cross-debt between the government and SN La Poste to clear the clearance arrears; (ii) the recapitalization of the corporation by finding a strategic partner capable of injecting the required resources; and (iii) the separation of Poste Finance from La Poste. The government undertakes to make correct payment for the public service provided by La Poste, and the latter undertakes to pay for postal checking account clearances backed by the Treasury.

24. As a follow-up to the audit on 2016 financing and its recommendations, a specific and detailed audit will be performed on the end-December 2016 credit balances of deposit accounts (comptes de dépôts). The credit balances of clearly identified entities will be subject to clearing over a period to be determined. Other deposit account balances that are unjustified or irrelevant would have to be cancelled. In order to prevent these balances from rebuilding in the future, the new regulatory framework henceforth regulating the conditions for the opening, functioning, and closure of deposit accounts (year-end) must be effective by the fifth review **(structural benchmark)** for application to the 2018 budget.

25. The promotion of good governance continues to be a priority. The national strategy on good governance expiring in 2017 will be revised. The government is committed to harmonizing the tools for measuring the state of governance and equipping Senegal with an objective basis on which to self-assess its governance policy.

C. Business Environment

26. The government organized, in of end-April 2017 jointly with the IMF, a workshop for exchanging best practices on public–private partnerships (PPPs). By the end of this workshop, [an action plan was produced] to facilitate the development of PPPs in Senegal.

27. The Business Environment and Competitiveness Reform Program (*Programme de Réformes de l'Environnement des Affaires et de la Compétitivité* – PREAC) continues to be enhanced with phase 2, covering the period 2016–2018. The first phase of the 2013–2015 PREAC led to significant progress in ranking the attractiveness of Senegal. PREAC II aims to accelerate this momentum and place Senegal among the top 100 countries on the "Doing Business" index and the top 70 on the Global Competitiveness Index of the World Economic Forum in Davos. It is divided into three components: (i) improvement in production and connectivity factors; (ii) continued conversion to electronic format of administrative procedures related to investment and trade; and (iii) a stronger legal and tax environment.

28. To improve the "Doing Business" ranking, the government is committed to: (i) making use of online payment more widespread for costs associated with the issuance of administrative documents that have already been converted to electronic format (business start-up, building permit, surety, and registry documents); (ii) making the land register paperless and setting up access to it online for notaries in the Dakar region as well as interconnecting services (land register, property); (iii) establishing a collateral registry correlating data on pledged movable property (registry) and mortgages (registrars); and (iv) creating and operationalizing the trade tribunal with automated procedures.

D. Promote the Private Sector

LOCAL PRIVATE SECTOR

29. In a context marked by the signature of Economic Partnership Agreements (EPAs) and the entry into force of ECOWAS' common external tariff (CET), Senegal needs to ramp

up the establishment of a strong private sector and highly competitive, sufficiently resilient enterprises. The private sector's role in the PSE is crucial to the implementation of structuring projects in terms of creating wealth and jobs in order to support strong, inclusive, and sustainable growth. To succeed, particularly at the industrial level, deep changes and bold action in creativity and innovation are expected from employers.

30. The government plans to focus all its attention on the private sector, particularly the PREAC II preparatory phase, in which it must play a leading role. The unified action framework underpinned by measures arising from various Presidential Investment Councils (*Conseils présidentiels de l'investissement* – CPI) must be renewed taking account of new existing frameworks, such as the Digital Senegal 2025 strategy (*Sénégal numérique 2025*), and the results of the recent general census of enterprises. To boost the private sector, a new strategy will therefore be added to the agenda. Rather than relying solely on factual albeit evidence-based information, a study will be drawn up on the private sector development strategy, which should lead to the implementation of an action plan.

ENERGY

31. The implementation of the energy investment plan continues. Development of the electricity sector is accelerating, with particular emphasis on the diversification of sources in order to reduce production costs and, eventually, the rates applied to households and enterprises. Two 20 MW solar power plants in Bokhol and Malicounda were commissioned in 2016. In January 2017, the government proceeded with an average 10-percent decrease in electricity rates, focusing on the first bracket. Four other solar power plants (Sarréole, Tenergie, Energy resources, and Senergy) with a unit capacity of approximately 20 MW are planned in 2017.

New program monitoring indicators

32. Assessment criteria have been defined for 2017 and 2018. Assessment criteria for end-December 2017 and end-June 2018, and indicative targets (ITs) for end-September 2017 and end-March 2018 are proposed (Table 1 of the MEFP). The government and IMF staff also agreed on the measures and structural benchmarks shown in Table 2 of the MEFP. Reviews will occur at six-month intervals. The fifth review is expected to be completed by end-December 2017, the sixth review by end-June 2018 and the seventh review by end-December 2018.

33. A new end-December 2017 assessment criterion on financing need is being proposed for greater control over debt development. The authorities recognize that debt has developed faster than expected, particularly as a result of cash operations related to loans granted by the government to La Poste and to the National Pension Fund. The financing level is fixed having regard to the discussions and efforts made to finance public services provided by La Poste, the FNR reforms planned, and the provisions to be introduced for better deposit account control.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2016-18

	2016										2017							2018	
	Mar.	Jun.				Sep.	Dec.				Mar.				Jun.	Sep.	Dec.	Mar.	Jun.
	IT	AC				IT	AC				IT				AC	IT	AC	IT	AC
	Prog.	Prog.	Adj.	Act.	Status	Prog.	Prog.	Adj.	Prel.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
	(CFAF billions, unless otherwise specified)																		
Assessment criteria[1]																			
Floor on net lending/borrowing[2]	-52	-202	-195	-145	met	-276	-372	-372	-369	met	-49	-42	-298	not met	-189	-259	-349	-43	-167
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	0	...	0	met	0	0	...	0	met	0		0	met	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	0	0	...	0	met	0	0	...	0	met	0		0	met	0	0	0	0	0
Ceiling on central government's overall net financing	...	...				...	...				...		...		...	...	499	...	...
Ceiling on the amount of the budgetary float	50	50	...	46	met	50	50	...	29	met	50		33	met	50	50	50	50	50
Indicative targets																			
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	15	...	5	met	15	15	...	1	met	15		25	not met	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35	35	...	37	met	35	35		39	met	35		36	met	35	35	35	35	35
Floor on tax revenue	398	901	...	899	not met	1,312	1,779	...	1,789	met	445		396	not met	1,006	1,464	1,986	495	1,120
Maximum upward adjustment of the overall deficit ceiling owing to																			
Shortfall in program grants relative to program projections	15	15	...	0	...	15	15	...	1	...	15		0	...	15	15	15	15	15
Memorandum items:																			
Program grants	3	13	...	20	...	24	35	...	34	...	3		10	...	13	24	35	4	17

Sources: Senegal authorities; and IMF Staff estimates.

[1] Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions.

[2] GFSM 2001 definition. Cumulative since the beginning of the year.

[3] Monitored on a continuous basis.

Table 2: Structural Benchmarks for 2016-18

Measures	Review	Status	Observations
2016			
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016	Met	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	Implemented with delay. The strategy was approved by the Minister of Finance in early November.
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	Met	
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016	Not met	The authorities are considering whether this should be part of a broader restructuring to be implemented in early 2017
Adopt an action plan for reducing tax expenditures	September 2016	Not met	Implemented with delay. The action plan was approved by the Minister of Finance in late October.
Collection of at least 50% of the CFAF 89.15 billion in tax claims considered recoverable, by 2016	December 2016	Met	The DGID recovered CFAF 46.5 billion, compared to a target of CFAF 45 billion
Finalization of the draft decree on the establishment, function, and organization of the National Public Debt Committee	December 2016	Not met	Implemented with delay.
2017			
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017	Not met	
Introduce a medium-term budget framework	March 2017	Met	
2016 financial audit identifying the Treasury cash flow gaps	March 2017	Met	
Operationalize the DGD-DGID platform. Production of a report based on data cross-checks between the DGD and the DGID.	5th Review	Reset from end-June 2017 to 5th review	
Expand and finalize the IGF financing audit and adopt a decree setting out the conditions for the opening, functioning, and closure of deposit accounts.	5th Review		
Implement the new DGID organization.	5th Review		
Adopt a statutory instrument making online filing and payment of taxes for medium-sized enterprises possible in 2018.	6th Review		
Select the IT service providers (selection des prestataires) for the implementation of the basic infrastructure of the MTAX platform.	6th Review		
2018			
Establish the public investment selection committee.	6th Review		
Implement the action plan for the reduction of tax expenditures; in particular, limit discretionary measures and foster a comprehensive approach based on rules published on the Internet applicable to everyone.	6th Review		

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 2017 and end-June 2018 and the indicative targets for end-September 2017 and end-March 2018 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 engages*), 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 payees*). 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. Annual Central Government Net Financing Requirement

Definition

20. The central government's net financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined above in the assessment criterion on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*). For end-December 2017 this assessment criterion must be less than or equal to the amount indicated in Table 1 attached to the Memorandum of Economic and Financial Policies.

Sample calculation

21. The government's overall net financing requirement for fiscal year 2017 is CFAF 499 billion. It is calculated as the sum of the overall fiscal deficit (CFAF 349 billion), and additional borrowing to finance accounts payable, as defined above (CFAF 150 billion).

Reporting requirements

22. Data related to the additional borrowing by the Treasury to finance accounts payable will be sent annually within a period of one month from the end of the month of December. This comprises: (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*).

23. Data related to the overall financing requirement will be sent annually within a period of one month from the end of the month of December. These data must include: i) total gross government debt; (ii) total debt principal repaid by the government; and (iii) all guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity. The details regarding any government borrowing (including amounts on-lent and any guarantee granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity) will be reported monthly within six weeks of the end of the month. The data on borrowings will be grouped together as short-term (less than one year) or long-term (one year or more). This rule will also apply to amounts on-lent and guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity.

H. Public Sector Contracts Signed by Single Tender

Definitions

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 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

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

I. Tax Revenues

Definition

26. 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.

27. 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

28. 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.

29. 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.

30. 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.

31. 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;

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.