International Monetary Fund

Senegal and the IMF

Press Release:
IMF Executive Board Completes Second Review Under Senegal's PRGF Arrangement and Approves US$5.3 Million Disbursement
March 8, 2005

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

February 4, 2005

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.

Dakar, February 4, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Mr. de Rato,

1. The Executive Board of the International Monetary Fund on April 28, 2003 approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in the amount of SDR 24.27 million, in support of Senegal's economic growth and poverty reduction program for 2003-05. The first review under this arrangement was completed on February 13, 2004. The attached Memorandum on Economic and Financial Policies (the "Memorandum") describes the results achieved in 2003 and during the first nine months of 2004, as well as the policies that the government of Senegal will pursue in 2005 to meet the program's objectives. It includes the measures taken to correct the shortcomings noted in the implementation of infrastructure works in Thiès in 2003 and 2004, which led to a postponement of the completion of the second review, initially scheduled for June 2004.

2. As stated in paragraph 5 of the Memorandum, all of the program's quantitative performance criteria were met as at end-December 2003, with the exception of the floor on the basic fiscal balance (program definition).This criterion was not met because of the emergency spending program adopted to cope with the adverse effects of the 2002 drought. In addition, the Autonomous Port of Dakar, faced with the looming breakdown of essential infrastructure, contracted a nonconcessional external loan of CFAF 6 billion from the West African Development Bank in October 2004 to carry out essential works, thereby exceeding the ceiling on nonconcessional public sector external borrowing. The extraordinary circumstances that led to the nonobservance of these criteria are explained in the attached Memorandum. Therefore, the government of Senegal hereby requests a waiver for the nonobservance of these two performance criteria.

3. The government of Senegal believes that the policies and measures set forth in the attached Memorandum, as well as the policies presented in the previous Memoranda of April 10, 2003, January 26, 2004, and May 18, 2004, will permit the achievement of its program objectives; however, it will promptly take any additional measures deemed necessary in this connection. The government of Senegal will consult the Managing Director of the IMF on the adoption of these measures and before making any amendments to the policies described in the Memorandum.

4. To facilitate the attainment of the objectives and the implementation of the above-mentioned policies, the government of Senegal hereby requests the completion of the second review and the disbursement of the third loan under the three-year arrangement, in an amount equivalent to SDR 3.47 million.

5. It is expected that the third review under the PRGF-supported program, which will make available the disbursement of the fourth loan, be completed by end-August 2005. This review will include, among others, the examination of an action plan to strengthen the financial sector. The fourth and last program review, which will make available the disbursement of the fifth loan, is expected to be completed no later than end-February 2006.

6. In spite of the delay in concluding the second review, the government does not wish to extend the current arrangement under the PRGF beyond its expiration on April 27, 2006. It requests that the remaining PRGF resources committed to Senegal be rephased over the remaining period of the arrangement.

7. The government of Senegal consents to the publication of this letter, the memorandum on its economic and financial policies, and the report of Fund staff on the second review of the program.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of Economy and Finance

Attachment: Memorandum on the Economic and Financial Policies of Senegal.

SENEGAL

Memorandum on Economic and Financial Policies for 2004-05

Dakar, February 4, 2005

I. Introduction

1. Senegal's commitment to achieving the Millennium Development Goals is spelt out in its Poverty Reduction Strategy Paper (PRSP). The medium-term economic and financial growth and development objectives will continue to be framed by the guidelines set out in the PRSP, in particular, the need to meet the strong demand for social services. The growth targets, which the government has set itself, fall within the framework of the Accelerated Growth Strategy, which seeks to raise the growth rate of real GDP, in the medium and long terms, to an annual average of 7 percent. A recent joint study by the government of Senegal and the World Bank showed that the incidence of poverty had declined by 16 percent between 1994 and 2002, as a result of the robust growth of the economy.

2. A national framework for monitoring and evaluation is in place to facilitate the implementation of the poverty reduction strategy. The report on the first year of PRSP implementation distributed to the IMF and World Bank Executive Boards in May 2004, takes account into the comments of the development partners. The procedure for updating the PRSP will be launched at the beginning of 2005. The new document will incorporate the new priorities, namely the development of infrastructure and the improvement of mobility in the capital, and the conclusions of the first and second annual PRSP progress reports. The second progress report will be completed by end-March 2005.

3. This memorandum updates the information in the memorandum of May 18, 2004 that describes the performance of financial policies and the implementation of structural reforms in 2003 and the program for 2004. The current memorandum reviews performance during the first nine months of 2004 and assesses the outlook for the rest of the year. It also presents the financial program for 2005, including the fiscal outlook.

A. Program Implementation in 2003

4. The quantitative performance criteria for end-December 2003 were met, except for the floor on the basic fiscal balance (program definition). Net credit to government declined by CFAF 42.3 billion more than expected; SENELEC did not accumulate any arrears to suppliers; and no government domestic or foreign payments arrears were accumulated; SENELEC incurred a new nonconcessional external loan from the West African Development Bank (BOAD) in July 2003, for which the IMF Executive Board granted a waiver. A government circular was issued in November 2003, requiring all public enterprises wishing to contract foreign debt to seek the prior consent of the Ministry of Economy and finance, which will verify the concessionality of the loan.

5. All quantitative indicators for end-December 2003 were observed, except for the floor on tax revenue and the ceiling on guarantee deposits. Tax revenue target was not achieved because of unfavorable trends in the tax base. Outstanding guarantee deposits slightly exceeded the program ceiling, mainly because of cash management problem at SENELEC, which prevented repayment of the remainder of a bank loan guaranteed by the government until March 2004. The other indicators, the ceilings on the wage bill, expenditure executed through exceptional procedures (cash advances and early payments), the stock of correspondent accounts (program definition), and the stock of SONACOS debt were all met. Similarly, the floors on credit flows in the correspondent accounts of the postal service and the Treasury were observed and the SENELEC met its basic balance target.

B. Structural Reforms

6. In the second half of 2003, the government implemented major reforms, in particular, in the tax system, recruitment policy, and public expenditure management. It also launched an ambitious program to build capacity in the energy and groundnut sectors and to make the regulatory framework and administrative procedures less burdensome for private sector operators.

7. Considerable progress was made in the selection of an Independent Power Producer (IPP) and the privatization of SONACOS. The call for bids on an IPP concession was sent out to potential bidders on November 5, 2003. Likewise, for the privatization of SONACOS, the tender documents were submitted to pre-qualified investors on January 13, 2004.

8. A key element of the first program review was formulating a medium-term civil service recruitment policy, to allow the government to accelerate compliance with the PRSP targets. These involve a 23 percent increase in staff over the level in 2002. Following the adoption of the plan in October 2003, a first wave of 1,356 employees was recruited in 2003, for the Education and Justice ministries.

II. ECONOMIC AND FINANCIAL DEVELOPMENTS AND PROGRAM PERFORMANCE IN 2004

A. Economic and Financial Developments in 2004

9. The economic and financial environment in 2004 was marked by a spike in oil prices, which exceeded US$50 per barrel in September 2004, and swarms of locusts invading Senegal. Despite these exogenous factors, the level of activity held steady. The impact of the locust infestation was contained through mobilization of domestic and external resources (both material and financial), effective protection of large production areas, especially those in the south, and the dynamism of the industry and services sectors. Nevertheless, primary sector is estimated to have grown by only 2 percent compared to 11.6 percent originally expected, reflecting a sharp decline in grain production. The secondary sector, affected by rising oil prices, is estimated to have grown a little less than expected in the program. The tertiary sector, which benefited from the effects of the good 2003 harvest, the development of

the electronic industry, and increased employment in the civil service, is estimated to have grown slightly more than planned. In the first nine months of 2004, the Industrial Production Index (IPI) rose more than 10 percent, the private service turnover index climbed to 20 percent, and the trade margin index grew by 8 percent. Real GDP is estimated to have grown by 6 percent as programmed.

10. Given the relatively high price of the barrel of oil on the world market, the inflation rate, measured by the GDP deflator, is expected to have been higher than originally expected. At end-November 2004, the Harmonized Index of Consumer Prices (HIPC) increased by 0.4 percent on a year-on-year basis.

11. At end-September 2004, the basic fiscal balance was better than expected despite a small underperformance in tax revenues. The tax revenue target for the year is estimated to have been reached thanks to higher expected performance of indirect taxes (particularly VAT on the Thiès projects) during the last quarter.

12. A supplementary budget law was adopted in September 2004 to allocate CFAF 31.5 billion in resources from debt relief under the enhanced HIPC Initiative. In conformity with PRSP guidelines, resources from the enhanced HIPC Initiative were allocated to the priority sectors (agriculture, education, health, sewerage and rural electrification) and to projects that impact poverty reduction (microfinance and creation of artisans' villages). CFAF 26.5 billion (i.e., 83 percent) has been allocated to rural areas. The supplementary budget law also allocated resources for completing the infrastructure work in Thiès, which had not been provided for in the initial appropriations of 2004 budget (see paragraph 18).

13. At end-December 2004, the basic fiscal balance (excluding HIPC expenditure and temporary structural reform costs) is registered to have a surplus of 1.4 percent of GDP and the overall fiscal deficit (including grants) is expected to amount to 2.7 percent of GDP.

14. Net foreign assets are estimated to have grown by CFAF 71 billion, and domestic credit to have increased by 14 billion, reflecting a tangible improvement in the government's net position and a 6-percent increase in credit to the rest of the economy. The money supply is expected to have therefore grown by 7 percent, or just a little less than the growth in nominal GDP.

15. The current deficit on the balance of payments (including current official grants) should be 6.2 percent of GDP, less than in 2003, the improvement in some export sectors, notably mining, and the decrease in food imports being stronger than the increase in imports of petroleum products.

B. Structural Reforms in 2004

16. The implementation of the reforms undertaken since 2003 continued in 2004. These reforms concern mainly the computerized management of fiscal operations, tax policy, hiring policy, the compensation strategy in the civil service, the groundnut and electricity sectors,

and a less burdensome regulatory framework and administrative procedures for private operators. The process of privatizing SONACOS was delayed. But the government has now accepted an offer for its sale. The transfer of ownership will be implemented by June 2005.

17. The government paid off the end-2002 arrears in social security contributions amounting to CFAF 11.3 billion owed by liquidated or bankrupt enterprises and local governments to the Senegalese pension institute (IPRES) (CFAF 8.2 billion) and social security fund (CSS) (CFAF 3.1 billion).

18. The government had expected that the infrastructure work in Thiès in 2004, totaling CFAF 40.1 billion, would be completed before April 4 2004 for the Independence Day celebration. Given the urgency, contracts with private-sector companies were signed in 2003 before budgetary appropriations were approved. The companies began work in 2003 based on bank pre-financing, prior to approval of the contracts by the competent authorities. The companies incurred CFAF 11 billion in expenditures in 2003 that were not invoiced until 2004. The 2004 budget included CFAF 31 billion of appropriations for the works in Thiès. However, to ensure full funding of the projects, the government included the remaining CFAF 9.1 billion in the draft 2004 supplementary budget voted by the assembly in October. The review of the compliance of contracts for the work in Thiès with the procurement code, conducted with assistance from the World Bank, showed that because of the urgency, some deadlines were shortened, raising the risk of errors in assessing the quality and cost of the offers.

19. The projects carried out in Thiès form part of the government's policy to create new regional focal points of development. Under this policy, starting in 2004 the government initiated an infrastructure investment program in the country's secondary cities. This investment program falls under the wealth creation policy, which is one of the priorities in the PRSP. The works in the secondary cities would (i) reduce the large economic development gap between these cities and the capital, (ii) create infrastructure that can help attract investors to these localities, (iii) develop public infrastructure that enables local government agencies to upgrade to the same level as the capital, and (iv) create conditions for local development through productive activities that help reduce poverty in these areas and excessive demographic pressures on the capital.

C. Performance Relative to Program Targets in 2004

20. At end-June 2004, all the quantitative objectives of the program had been met, except for the floor on net credit flows in the correspondent accounts of the SN La Poste at the Treasury. At end-September all the targets that had previously been proposed as PCs (but not established as such by the Board) were met. However, indicative targets for tax revenue, the stock of deposits in correspondent accounts, expenditures executed through exceptional payment procedures, the basic balance of SENELEC, and the stock of debt of SONACOS, were breached by small amounts. The Autonomous Port of Dakar borrowed CFAF 6.1 billion at an interest rate of 8.5 percent per year over 10 years with three years' grace from the West African Development Bank in October 2004. This loan was needed to make the necessary

urgent repairs to prevent the closing of the port, which would have had serious repercussions on the national economy.

21. The government took the prior actions initially envisaged for the second review including publication of the implementing decree and circular for the investment code, and production of a report on tracking expenditure execution by major line items. It also installed the SIGFIP software and published the audited accounts of SENELEC in the projected time frame. By contrast, the Treasury accounts for FY 2002 were not forwarded to the Audit Court on time, and the interconnection between the Tax Administration, the Customs Administration and the Treasury is still not functional due to delays in the computerization of the Treasury's aggregate database. A detailed report on public investment project execution is still to be produced.

III. Key Targets and Components of the 2005 Economic and Financial Plan

22. In 2005, the poverty reduction strategy will be pursued on two levels in a context of maintaining financial stability. On the one hand, the government will seek to improve quality and expand availability of basic social services through its recruitment policy, particularly in the education and health sectors, and the compensation policy for the civil service. On the other hand, the government will continue its infrastructure investment program and the strategy to promote the growth of private investment.

23. The transparent and competition-friendly regulatory framework, established since February 2004 with the adoption of the Build-Operate-Transfer (BOT) law, will facilitate private sector involvement in building quality infrastructure. This law seeks to grant concessions in a transparent and competitive manner. An Infrastructure Council was created in February 2004, with representatives from civil society, government, parliament, and experts. It will be responsible for ensuring consensus during the management stage of major infrastructure projects. The government will pay special attention to the type of risk assumed in public/private partnership (PPP) operations, especially in the context of financing major infrastructure projects. Each PPP operation should clearly explain all financial liabilities, implicit or explicit, assumed by the government. To ensure that major projects are effectively managed, the government will request support from the World Bank for feasibility assessments. It will also request the staff of the International Monetary Fund to ensure that these projects are consistent with the macroeconomic framework of the program.

24. The new Investment Code, which took effect in 2004, and the new legislation on corporate taxation will introduce simpler regimes. The government will keep up close communication with the private sector, in particular through the Presidential Investment Council (CPI) and will continue its strategy of enhancing good governance.

25. Based on these policies, the 2005 program aims to: (i) achieve a real growth rate of about 6.4 percent; (ii) maintain price stability in line with the WAEMU multilateral

surveillance targets; and (iii) keep the fiscal and current balance of payments deficits at a sustainable level.

26. Real GDP growth in 2005 should reflect a sustained expansion of all sectors. Primary sector growth is expected to rise as a result of recovery of grain production after the decline in 2004. The growth of the secondary sector should be led mainly by construction and public works thanks to the implementation of a major program to improve urban mobility in Dakar and continued infrastructure development in the secondary towns.

27. The external current account deficit (including official transfers) should improve. Export growth will be sustained mainly by an increase in the volume of groundnut-based products and the recovery of phosphoric acid production.

A. Fiscal Policy, Tax Reform, Government Expenditure Management, Recruitment and Compensation Policy

Fiscal policy

28. Efforts to strengthen the structure of the budget will be continued and consolidated in 2005. The basic fiscal balance (program definition) will stand at 0.7 percent of GDP in 2005 compared with 1.4 percent of GDP in 2004. The overall deficit, including grants, will move from 2.7 percent of GDP in 2004 to 2.9 percent of GDP in 2005. The fiscal program is based on the following principal parameters: (i) tax revenue projected at CFAF 802.2 billion, a tax burden of 18.4 percent of GDP; (ii) a wage bill of CFAF 247.3 billion, incorporating the moderate financial impact of the recruitment program and compensation policy; (iii) the growth in other current expenditures (CFAF 309.9 billion) and capital expenditure from domestic resources (CFAF 279 billion); and (iv) the temporary costs of structural reforms are estimated at CFAF 18.5 billion, mainly to cover the recapitalization of the postal service (CFAF 15.5 billion).

29. The social (HIPC) expenditure that was the subject of a supplementary budget law in previous years was incorporated into the initial budget law in 2005, to accelerate the pace of expenditure on the social sectors. The expenditure under the HIPC Initiative in 2005 will amount to CFAF 59.6 billion, of which 49.6 billion was allocated to capital expenditure, and 10 billion to operating expenditure. Financing for these expenditures will include: (i) expected HIPC relief for 2005 of CFAF 51.1 billion and (ii) CFAF 8.5 billion remaining from the supplementary budget laws of 2001 and 2003.

30. In executing the budget, the government will take into account revenue performance relative to program targets. Consequently, if there is a revenue shortfall, the government will take fiscal measures to keep the deficit in line with the program, including reductions in non-priority spending, if necessary.

31. Resources that may be received within the framework of the Millennium Challenge Account (MCA) program and the preparation of the summit of the Organization of Islamic

Countries are not reflected in the 2005 budget. The amounts and procedures for spending these resources are still not known. In the interest of strengthening fiscal discipline and transparency, the government will adopt a supplementary budget law to present the external funds made available to the government and all of its agencies, to finance any expenditure associated with these initiatives.

32. Starting with the 2006 budget, the government will ensure the consistency of the capital expenditure budget with the capital expenditure shown in the TOFE. In addition, in the process of preparing the public investment program under the budget law, the government will take account of capacity constraints, recurrent expenditures, such as operating and maintenance costs and the level of domestic and external debt that is compatible with public debt sustainability.

33. The government will keep up its efforts to expand the tax base and to improve efficiency in tax collection. The ongoing tax reform should support a lasting and sustainable level of fiscal revenue collection in 2005, while fostering a flexible and attractive environment for private enterprise. To this end, in step with the reform of the General Tax Code, the government has introduced several capacity-building measures in the Directorate General of Taxes and Government Property (DGID). These measures include recruitment of at least 105 employees (55 tax officers and 50 assessors) per year at the DGID during 2004-2005; continuing computerization of the DGID, and digitizing the Land Registry. The electronic data-sharing system will become fully operational by June 2005. It will make it possible to prepare monthly reports on taxes assessed and collected with a maximum lag of one month. The digitization of the Land Registry will enhance the efficiency of land and government property management. The numerical mapping of the 40 largest urban areas was finished in December 2004.

34. Under the recent tax reforms, efforts have been stepped up to fight tax fraud and tax evasion. The key elements of the reform include a more proactive investigation of tax offenses, on-site audits in processing VAT reimbursement claims, a better control of exemptions, penalties for purchases made without delivery of an invoice, and enforcement of the use of the single taxpayer ID number (NINEA).

35. At the same time, the government has carried out a reform of the corporate tax, including the new Investment Code. Implementation decrees and a circular were issued in May 2004 with the objective of preserving fiscal neutrality and simplifying the tax regime.

36. With a view to liberalizing the oilseed industry, in particular the privatization of SONACOS, the special tax on imports of vegetable oils was suspended in June 2004 and the law eliminating the tax on vegetable oil protection was voted in July 2004. After agreement with the World Bank, the law was promulgated in December 2004. The tax will be completely phased out by December 31, 2005.

37. The government has decided to increase the percentage of gross wages that is exempted from the calculation of the tax base on earned income for the contribution to the

retirement fund (the exempted wages pass from 10 to 13.2 percent) starting in January 2005, thereby reducing the tax burden on wages. The negative impact of this measure on projected revenue collection in 2005 amounts to CFAF 5 billion (about 0.01 percent of GDP).

Public expenditure management

38. The draft 2005 budget was prepared in the context of a series of fiscal and financial reforms that were a necessary part of PRSP implementation. These reforms revolve around three pillars. First, a medium-term fiscal framework was prepared for four ministries. With this new expenditure planning system, the budgets were prepared for the Health, Education, Environment, and Justice sectors based on their sectoral programs. Second payment orders procedures were also decentralized for these four line ministries. Lastly, a single budget document was prepared, containing both the government's current and capital expenditure, based on a harmonized system of classification. The government will also take measures to reconcile current and capital expenditures with PRSP priorities, paying particular attention to Regional Operation Plans (POR) and the priority actions in the PRSP for vulnerable groups.

39. With a view to strengthening the decentralization process and improving absorptive capacity, the government plans to decentralize the consolidated investment budget (BCI) from 2006. To that end, it will take action in 2005 on the different standards (laws, conventions, and interministerial decrees), allowing fiscal decentralization to be implemented in 2006, after the testing done in 2005 in the education and health ministries. The goal in 2007 is to extend the decentralization of management of the BCI's internal resources to all the departments of the spending ministries with projects that the government has entrusted to local authorities.

40. The government will continue to implement the ambitious program of budgetary and public financial management reforms through action plans validated in July 2003 and designed to reinforce fiscal management (CFAA) and procurement procedures (CPAR).

41. With a view to computerizing the management of fiscal operations, the government installed the Integrated Government Finance management System (SIGFIP) in July 2004. The government is committed to increasing the effectiveness of this budget execution tracking system with an automatic link with personnel expenses. Similarly, in order to better track public expenditure execution and enhance fiscal transparency, the SIGFIP system will be modified in two ways. First, information on expenditure execution will be presented with the same level of detail as in the TOFE, making it possible to monitor the differences in the levels of payment orders and actual payments. Second, SIGFIP will also be used to track expenditure that have been committed and verified but for which no payment order has been issued. This procedure will help to reduce the duration of the expenditure cycle. All these changes should take effect in the first half of the year. This system is fully capable of interfacing with the ASTER accounting software that will be installed in the Treasury. The government has signed an agreement with France to install ASTER before January 1, 2007. The agreement includes a plan for training and technical assistance, given the operational complexity of the system.

42. To better monitor public finances, the DGCPT will produce a monthly TOFE based on monthly consolidated account balances, with a 60-day lag starting in 2005. The January 2005 TOFE will be prepared no later than March 31, 2005. Furthermore, the government will make the TOFE more transparent by: (i) establishing a correspondence table between the Treasury balance and the broad TOFE aggregates (ii) improving the presentation of the Treasury's correspondent accounts in the TOFE and (iii) ensuring the consistency between the net government position with the banking system derived from the monetary data and derived from the TOFE. All these measures will become effective by end-June 2005.

43. To limit the use of contracts granted to a single bidder, annual procurement plans will be established in the large spending ministries. The government will reduce the percentage of contracts granted to single bidders to 20 percent of the total contracts granted by government ministries. This performance criterion will be reexamined on the occasion of the third review on the basis of the most recent information about contracts signed by all ministries and government agencies.

44. The government will conduct a study by end-March 2005 to harmonize the Government Obligations Code and the Procurement Code and to improve the legal framework for procurement. The government has included in the draft budget law for 2005 an article limiting the terms of application of Article 45 of the Code of Government Obligations, which was approved with the passage of said budget law. This Article enables contracting parties with the government to benefit from financial compensation, even if the contracts were not approved by the competent authorities. Article 19 of the 2005 budget law has the legal hierarchy so as to amend Article 45 of the Obligations Code as the budget law has the same rank as the Code of Government Obligations, and may therefore amend the latter's provisions. Consequently, this article of the budget law permanently replaces the provisions of Article 45 of the Code of Government Obligations. Furthermore, there are currently no other provisions (in other laws) that permit contracting parties with the government to receive financial compensation under the terms set forth in Article 45 of the Government Obligations Code.

45. The government intends conduct a systematic audit of budget execution. The internal audit structures have been reorganized and revitalized. External audits of the government's management accounts by the Audit Court will continue and the parliamentary review of the budget execution laws will be enhanced. The treasury accounts for the year 2000 were submitted to the Audit Court in April 2004, while those of 2001 were submitted in July 2004, in compliance with the initial program timetable. However, the accounts for 2002 were submitted in November 2004, with a three-month delay. The accounts for 2003 will be submitted no later than end–February 2005. The government will also support the Audit Office in submitting the revised budget laws to the National Assembly by the deadlines set in the WAEMU directives. Capacity building in the Audit Office includes financing from the Multi-Donor Trust Fund managed by the World Bank to recruit assistants for auditing these accounts.

Civil service recruitment and compensation policy

46. A key component of the first program review was the formulation of a policy of recruiting 15,000 new employees into the civil service over three years. The objectives pursued are greater efficiency in the public service, to improve the quality and scope of basic social services, in addition to strengthening judiciary, security services, and revenue offices. Appointments in the first wave of hiring for 2003 were completed in June 2004. The final proposals for 2004 have already been made. The implementation of the recruitment strategy has suffered some delays. The hiring of 5,000 employees, planned initially for the last quarter of 2003, was staggered over 2003 (1,356 employees) and the first quarter of 2004 (3,186 employees). The final proposals for 2004 were made and the staff hired should be available to the units that need them by end-June 2005. As projected, 5,000 additional employees will be recruited to start work in the last quarter of 2005. The government will continue and accelerate the special recruitment program to meet all staff needs and improve the provision of public services in compliance with PRSP objectives.

47. The government has also implemented a new compensation strategy in the civil service, effective October 2004. The strategy seeks to make wage increases performance-related, provide additional incentives to staff to make civil service employment more attractive, and strengthen the quality of public services. This new compensation policy has been taken into account in the wage bill envelope for the 2005. A technical and financial audit of the payroll is under way and the final report is expected in June 2005.

B. Postal Service

48. The Government's sectoral policy letter, adopted in February 2003, set out the development objectives and strategy for the postal system. The objectives are to (i) improve the overall performance of the postal sector by opening it up to the private sector; (ii) upgrade the legal and regulatory framework of the sector and strengthen sectoral regulation; (iii) safeguard the right of citizens to communication; (iv) transform Post Office into a modern and effective enterprise by implementing a strategic plan; and (v) promote the sustainable development of postal financial services by creating a subsidiary bank. The implementation of the action plan attached to the policy letter, which includes recapitalization of the postal service, was delayed, but will be completed in 2005, except for the postal bank, which is scheduled to be established in 2006. The postal bank will not undertake any credit operations until private shareholders hold a majority interest.

C. Financial Sector Reform

49. After the success of the Treasury bill issue, the government will continue to issue securities on the regional financial market to meet its needs. It is also continuing to explore the possibility of deepening the government securities market in Senegal under the WAEMU Community Directives. In particular, it plans to resort to the bond market to finance the program to improve urban mobility in Dakar in 2005.

50. The improvement in access to credit for the establishment and growth of enterprises, in particular small and medium-sized enterprises, is a priority of the government's action program. A broad-based dialogue was launched in 2004 between the government, the private sector, the central bank, banks and financial institutions, microfinance institutions, and the regional stock market (BRVM), to foster the contribution of the financial sector to the development of economic activity. An action plan is being elaborated. It revolves around the following pillars: development of local financial intermediation; improvement of the framework, monitoring governance of enterprises; promotion of new financial products and nonbank financial intermediation (investment companies, risk capital companies, mortgage funds, etc.); reform of the legal and judicial environment; and tax incentives to increase the credit supply and mobilize long-term resources.

51. The government's actions will also include initiatives at the regional level to increase bank financing to the economy, promote the regional financial market, and enhance the soundness of the financial sector, and follow up the findings of the Financial Sector Assessment Program (FSAP) update. The action plan will be discussed during the third review program. Meanwhile, the government has already decided to hire 60 magistrates and to build the capacity of the courts through specialized training in economic and financial matters, to improve the enforcement of financial contracts and reduce the cost of financial intermediation.

52. The government will continue to actively participate in consultations with the BCEAO in the reform of the legal framework applicable to microfinance in WAEMU. The reforms consist of: tightening prudential standards with a view to consolidating the microfinance sector; intensifying the involvement of the BCEAO in inspection of the institutions and granting of licenses; and standardization of financial statements to reduce reporting lags and increase transparency of accounts.

53. The recent mission to update the FSAP confirmed the soundness of the financial system. The policy aimed at financial sector development and supervision will be continued in order to consolidate the gains so far. The authorities will continue to pay special attention to the exposure of banks to large enterprises, which is the main vulnerability facing the banking system.

54. To combat money laundering and the financing of terrorism, a law was adopted in July 2003 to implement the rules derived from the 40 FATF recommendations. A decree creating the National Financial Information Processing Unit (CENTIF) was also adopted in August 2004. A standard community law against financing terrorism is being prepared within WAMU for adoption by the community in 2005.

D. External Debt Policy

55. The government will not contract any guarantee foreign borrowings on nonconcessional terms (where the grant element is less than 35 percent of the actual amount borrowed) and it will not accumulate any arrears. The instructions regarding prior

authorization by the Minister of Finance for any foreign borrowing by public entities, as defined in the circular from the Prime Minister's Office dated November 24, 2003, will be strictly enforced. The government will also improve the management and monitoring of external public debt by: (i) making sufficient professional staff and logistical resources available to the Public Debt Division; and (ii) implementing an action plan of ongoing training in modern debt management techniques. To guarantee the reliability of the database on external public debt, cross checking data with all donors will be a priority task. The government will put in place a monitoring mechanism to ensure that public enterprises take due account of profitability and sustainability concerns before borrowing, within the framework of the close surveillance modalities described below

56. Incorporation of the debt sustainability analysis into the macroeconomic framework is now one of the responsibilities of the National Economic Policy Committee (CNPE). The first analysis has been available since October 2004 and will be updated every six months. These frequent analyses will continue to help define a borrowing policy consistent with the medium- and long-term macroeconomic framework. The preliminary results of the debt sustainability analysis confirm that the debt profile remains sustainable. The analysis also shows that high growth over the long term and a prudent fiscal policy will preserve sustainability and provide impetus towards attaining the millennium development goal of poverty reduction.

57. Under the HIPC Initiative, the government will continue its efforts to raise the rate of participation of its creditors in the initiative.

E. Public Enterprises

Groundnuts

58. Government policy for the groundnut industry was defined in the Policy Letter for Development of the Groundnut Industry (LPDFA) adopted in May 2003. Its main aim is to revitalize and diversify production, so as to increase the revenue of small farmers and reduce the vulnerability of growing a single crop, groundnuts. The policy deepens and consolidates the liberalization policy adopted, in particular by privatizing SONACOS and assigning responsibilities for production, collection, storage, distribution, transportation, and marketing of groundnut seeds to professionals, and rationalizing the judicial and regulatory framework.

59. The government has taken a decision to privatize SONACOS, and is taking the following steps to transfer ownership of the company:

- provisional sale to the buyer no later than one week after the government's decision on privatization of the company's announced;
- launch negotiations with the buyer one week after notification of the provisional sale;
- negotiation of all transaction documents (specifications, contract transferring shares, etc.) to clearly specify all the buyer's obligations;

- sign the share transfer contract, which officially establishes the actual privatization of the company;
- call the general assembly of shareholders of the privatized company; and
- convene the board of directors of the privatized company.

60. The privatization of SONACOS could give rise to social costs estimated at CFAF 3 billion. These charges will have to be charged to the budget in 2005.

61. The government intends to finalize this process by June 30, 2005. Pending the conclusion of the process of privatizing SONACOS, the government will grant no subsidies to the company, will ensure that it does not accumulate any payment arrears, and will limit its bank borrowing to the amount SONACOS needs to finance the 2004-05 harvest.

62. To guarantee the activity of the vegetable oil factories after privatization, the government has laid down a sectoral development strategy, which hinges on; (i) a seed policy tailored to the newly liberalized processes of production, harvesting, and marketing; and (ii) the replenishment of the stock of improved groundnut seeds. This policy is based on assigning responsibility for the production of certified seeds to associations of producers and farmers, capacity building in the planning and production of seeds by seed producers and their organizations, and building the supervisory and certification capacity of the seed control division of the Agriculture Department.

Electricity

63. In 2004, the monitoring of SENELEC was reinforced by the regular production of its financial statements. The audited accounts at December 31, 2003 and June 30 2004 were published, and the quarterly provisional statements at end-September 2004—which are subject to limited review by the auditors—were announced to the public in December 2004. The government is committed to continuing to publish the half-yearly audited accounts and to announcing the release of examined quarterly provisional statements within 60 days. SENELEC will furnish the IMF every quarter with all the data needed to closely monitor its financial situation.

64. The government will not make transfers to SENELEC for its current operation. It will ensure that the SENELEC does not accumulate payment arrears and that its indebtedness to banks remains below the level deemed reasonable by the Ministry of Economy and Finance. An action plan has also been prepared as part of the financial rehabilitation of SENELEC. This plan, which focuses on restoring short-term cash flow and profitability, rebuilding the company’s image, and gradually meeting demand, will be implemented in 2005. In the medium term, the government will take action to restructure the company by progressively separating production activities from transportation and distribution functions. The government also intends to divest from SENELEC gradually and invite the private sector to manage and invest in SENELEC.

65. The Electricity Regulatory Commission lowered electricity prices by 5 percent starting in August 2004, based on a formula in effect since 1999 that expired on December 31, 2004. The process of revising the formula, which started in November 2003, has been delayed owing to the late receipt of the necessary documents. The new formula will be compatible with operator profitability and established in close collaboration with the World Bank. The new formula will be effective by July 1, 2005 or (October 1, 2005, in case an objection is raised by an interested party, as permitted under the regulations).

66. In keeping with the objectives of the PRSP, the government will implement a rural electrification policy to raise electricity coverage in the rural areas from 8 percent in 2003 to 15 percent in 2005. In that connection, the government will act on the guidelines listed in the development policy letter for the rural electricity sector and a SENELEC subsidiary for rural electrification has just been created. Most of the fixed capital expenditure of operators will be financed by the rural electrification fund, which will be established in 2005. This fund will receive contributions from donors and limited transfers from the government.

Other public enterprises

67. To prevent any adverse consequences for government finances, supervision of the financial situation of public enterprise will be tightened. The Government Portfolio Management and Supervision Unit, has already established a quarterly trend chart of management indicators to closely monitor the management of those enterprises and to alert the authorities if need be. One monitoring indicator will be the total debt of public enterprises, which will be the subject of a quarterly report available with a lag of no more than 45 days. The unit's resources will be increased for that purpose. These quarterly reports will include a clear opinion on the financial health of public enterprises and any recommended corrective measures needed, as well as a complete inventory of all financial obligations and guarantees extended by the government to these enterprises. In the case of public/private partnerships, a framework for assessment will be set up in 2005 to clarify the nature of the government's conditional obligations.

68. The government has placed the Senegal National Lottery (LONASE) on the list of enterprises to be privatized. The losses of the lottery have led the government to cancel the company's accumulated tax liabilities of CFAF 24 billion.

69. Although the Chemical Industries of Senegal (ICS) is not a public enterprise (the state holds 47 percent of the capital), the company will be closely monitored by the Government Portfolio Management and Supervision Unit. The company made losses amounting to CFAF 35 billion (0.9 percent of GDP) in 2003. The government will not to make any budgetary transfer to the company in 2005 and will press for cost cutting, management improvements, and other remedial measures that would entail little impact on public finances in later years.

F. Private Sector Development and Governance

70. The projects registered under the Investment Code increased in value from CFAF 196 billion in 2001 to CFAF 412 billion in 2002 and CFAF 579 billion in 2003. The APIX (Agency for Investment Promotion and Major Projects) will continue to play a key role in facilitating access by private sector operators to investment incentives, and coordinating the related administrative processes. To shorten the response time of the public institutions involved in applications for business licenses, a draft law on administrative procedure will be submitted to the Parliament in the first quarter of 2005. In keeping with the objective to improve the quality of the services offered to investors, APIX launched the procedure for one-stop-shop certification under the ISO 2000 standard.

71. The Presidential Investment Council has become a forum for effective dialogue and an instrument of reform, thanks to its close follow-up of implementation of the recommendations adopted by the government. An interministerial working group chaired by the Secretary General of the government is in charge of weekly tracking and presentation of a report on the measures adopted at the Council's half-yearly sessions. In particular, its efforts led to measures in 2003, which have relaxed the regulatory and administrative conditions that apply to the private sector.

72. Regarding the national program for good governance, the National Assembly passed a law in 2003 creating the National Council against Corruption and Extortion, which has been in place since April 2004. The Commission organized a workshop in December 2004, to launch its activities.

G. External Competitiveness and Trade Policy

73. Membership in the franc zone has enabled Senegal to consolidate its macroeconomic stabilization gains, in particular moderate inflation and low public deficits. Despite the sharp appreciation of the euro against the dollar in recent months, the competitiveness of the Senegalese economy has been relatively unaffected. The government intends to emphasize strengthened competitiveness, especially through structural reforms to reduce production costs, such as utility, transportation, and communications costs.

74. The government also plans to promote economic diversification, a determining factor in the success of sustained growth policy in the medium term. The sectors identified as potential engines of growth are, in particular, agriculture and agroindustry, telecommunications, tourism, manufacturing, textiles, and fisheries. Measures will be taken in these sectors to strengthen their competitiveness with a view to greater integration into the world economy.

75. Regarding trade policy, the government is committed to continuing its efforts to harmonize its practices with WAEMU regulations. In particular, the government will limit the number of products subject to reference values, as of July 1, 2005.

IV. PROGRAM MONITORING

76. To ensure effective implementation of the program, the government has reached understandings with Fund staff on the prior actions described in Table 3 of the annexed TMU concerning program monitoring. Implementation of Senegal's program during 2005 will be monitored using quantitative performance criteria (end-March and end–September, 2005) and indicators (end-June and end-December 2005), as well as structural performance criteria and benchmarks listed in Tables 1 and 3 of the TMU. It is expected that the third and fourth reviews, which would make available the disbursements of the fourth and fifth loans, respectively, be completed by end-August 2005 and end-February 2006, respectively.

SENEGAL

Technical Memorandum of Understanding

Dakar, February 4, 2005

1. This technical memorandum of understanding (TMU) defines the quantitative and structural performance criteria, indicative targets and structural benchmarks on the basis of which the implementation of the program supported by the Three-Year Arrangement under the Poverty Reduction and Growth Facility for Senegal will be monitored. in 2005. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

I. Definition

2. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with separate legal personality.

II. Quantitative Performance Criteria

3. Quantitative performance criteria are proposed for March 31, 2005 and September 30, 2005 for: (i) the basic fiscal balance (program definition, see paragraph 4); (ii) the change in net bank credit to the government; (iii) the share of public contracts granted outside the normal tender procedures on a no-bid basis; (iv) the indebtedness of SENELEC to the banking system; and (v) the indebtedness of SONACOS to the banking system. For June 30, 2005, and December 30, 2005, indicative targets are proposed for the same items. The following performance criteria are proposed for monitoring on a continuous basis: (vi) the domestic payments arrears of the government; (vii) the external payments arrears of the government; (viii) the contracting or guaranteeing of new non concessional external debt by the government ; (ix) the government contracts signed without budgetary appropriation; (x) the budgetary transfers to SENELEC; (xi) the budgetary transfers to SONACOS; (xii) the payment arrears of SENELEC; and (xiii) the payment arrears of SONACOS.

A. Basic Fiscal Balance, Program Definition

Definition

4. The **basic fiscal balance (program definition)** is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure financed from abroad and drawings on loans to be on-lent, and the costs of structural reforms (as defined in Table below) and spending financed with HIPC-related resources. It includes the balance of special and correspondent accounts at the Treasury.

Indicative Costs of Structural Reforms in 2005

(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/05	6/30/05	9/30/05	12/31/05
Groundnut Sector				
Recapitalization of SONACOS prior to sale				
Severance pay			3.0	3.0
Other costs pertaining to the privatization of SONACOS				
SN La Poste				
Recapitalization prior to measures to make the Post office autonomous from the treasury correspondent account		15.5	15.5	15.5
Other costs				
IPRES and CSS				
Payment of social security contribution arrears to IPRES				
Payment of social security contribution arrears to CSS				
Judicial system				
Specific training program for judges and clerks in commercial matters				
Other costs				
TOTAL		15.5	18.5	18.5

Basic Fiscal Balance (Program Definition)
(In billions of CFA francs, cumulative from the beginning of the year)

	12/31/04 Estimate	3/31/05 Criterion	6/30/05 Indicative Target	9/30/05 Criterion	12/31/05 Indicative Target
I. Budgetary revenue	771.6	179.2	392.1	628.5	841.0
II. Total expenditure and net lending	948.7	207.6	485.5	753.5	1,049.8
III. Capital expenditure externally financed	159.2	36.0	74.8	107.9	143.9
IV. Drawings on loans to be on-lent	16.0	0.0	8.3	8.3	16.0
V. Basic fiscal balance = I – (II – III – IV)	-1.9	7.6	-10.3	-8.8	-48.9
VI. Temporary costs of structural reforms	11.3	0.0	15.5	18.5	18.5
VII. Expenditures financed with HIPC-related resources	44.9	5.9	27.5	34.3	59.6
VII. Basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources = V + VI + VII	54.3	13.5	32.7	44.0	29.2

Performance criteria

5. The performance criteria for the basic fiscal balance (program definition) are **floors** set at CFAF 13.5.8 billion for March 31, 2005 and CFAF 44 billion for September 30, 2005. The indicative targets for June 30, 2005 and December 31, 2005 are floors set at CFAF 32.7 and CFAF 29.2 billion, respectively.

Adjusters

6. The floor for the basic fiscal balance (program definition) will be increased by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

7. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) with a lag of no more than 45 days. The data on: revenues, expenditures, special accounts and correspondent accounts

that are included in the calculation of the basic fiscal balance; expenditure financed with HIPC-related resources; and costs of structural reforms incurred will be drawn from preliminary treasury account balances. The costs of structural reforms incurred will also be provided by the authorities in the form of a table similar to the one above with a lag of no more than 45 days. Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than two months after the reporting of provisional data.

B. Change in Net Bank Credit to the Government

Definitions

8. The definition of government for the purpose of calculating net bank credit to the government is the one applied by the BCEAO. It is broader than the definition of government in paragraph 2. Net bank credit to the government reflects the net credit position of the government—including postal checking accounts (CCP)—vis-à-vis the central bank and commercial banks. Net bank credit to the government is the difference between the government's gross indebtedness to the banking system and its claims on the banking system. Government claims include all deposits at the central bank and commercial banks, and secured claims (*obligations cautionnées*), as well as (for reporting purposes) Treasury cash holdings. The government's debt to the banking system includes central bank credit (mainly statutory advances, IMF net credit, refinancing of secured liabilities, the deposit by Kuwait, and government securities held by the central bank), commercial bank credit (including government securities held by resident commercial banks), ex-ONCAD securities, and private deposits at the CCP. Government securities held outside the Senegalese banking system are not included in net bank credit to the government. The net bank credit to the government as calculated by the BCEAO serves as the basis for program monitoring.

9. The change in net bank credit to the government as of the date for the quantitative performance criterion or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31 of the preceding year.

Net Bank Credit to the Government
(In billions of CFA francs)

	12/31/04 Estimate	3/31/05 Criterion	6/30/05 Indicative Target	9/30/05 Criterion	12/31/05 Indicative Target
I. Net bank credit to the government	32.7	16.6	8.2	5.4	35.1
II. Change in net bank credit to the government, cumulative from beginning of the year	-31.5	-16.1	-24.5	-27.3	2.5

Performance criteria

10. The amounts set in the above Table on Net Bank Credit to Government for March 31, 2005 and September 30, 2005 are ceilings and constitute performance criteria. The amounts set in the above table for June 30 and December 31, 2005 are ceilings and constitute indicative targets.

Adjusters

11. The ceiling on the cumulative change in net bank credit to the government will be lowered (raised) by the amount by which disbursements of external budgetary assistance (defined as budgetary grants, program disbursements, and debt relief, excluding Fund resources, and HIPC Initiative debt relief) exceed (fall short of) program projections as set out in the Table 2. The adjustment will be for the full amount of any excess disbursement but will be limited to CFAF 20 billion in the event of a shortfall.

Programmed External Budgetary Assistance
(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/05	6/30/05	09/30/05	12/31/05
Budgetary grants	3.7	7.7	11.1	14.8
Program disbursement	29.1	33.6	33.6	55.3
Debt relief	0	0	0	51.9
Total	32.8	41.3	44.7	122.0

12. The ceiling will be adjusted for the difference between programmed HIPC-related resources and actual HIPC-related resources. HIPC-related resources consist of debt relief under the HIPC Initiative received during the period under consideration and of the stock of resources in the Treasury's HIPC account at the BCEAO at the end of the preceding year. The ceiling will be lowered (raised) for HIPC-related resources exceeding (falling short of) programmed amounts as set out in Table 2.

13. The ceiling will be raised (lowered) for HIPC-related spending exceeding (falling short of) programmed amounts (as set out in Table 2). HIPC-related spending consists of expenditures in priority sectors that have been financed with HIPC-related resources.

14. The ceiling will be lowered (increased) for expenditures on structural reforms that fall short of (exceed) the programmed amount (as set out in Table above). The ceiling will be

raised only when these additional costs are not covered by additional, unforeseen, external budgetary assistance as defined in paragraph 12.

15. In addition, the ceiling on net bank credit to the government will be lowered (raised) for **government paper issued in 2005 held** by an entity or person **outside the Senegalese banking system** that exceed (fall short of) the programmed amount.

16. Moreover, the ceiling on net bank credit to the government will be lowered by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

17. The BCEAO will report the provisional data on the net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than one month after the end of each observation period. Final data will be reported with a maximum lag of two months.

C. Domestic Payments Arrears

Definition

18. Domestic payments arrears are duly certified domestic expenditure commitments cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared.

Performance criterion

19. Under the program, the government will not accumulate any domestic payments arrears. This performance criterion will be monitored on a continuous basis.

Reporting requirements

20. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred. The government will also report to Fund staff on a monthly basis and with a 60 day delay all committed expenditure (*dépenses engagées*) and all certified but not yet cleared for payment expenditure (*dépenses liquidées non encore ordonnancées*).

D. External Payments Arrears

Definition

21. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (as defined in paragraph 25) that has been contracted or guaranteed by the government, with the exception of external payment arrears arising from government debt being renegotiated with creditors including Paris Club creditors.

Performance criterion

22. Under the program, the government will not accumulate any external payments arrears. This performance criterion will be monitored on a continuous basis.

Reporting requirements

23. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed.

E. Ceiling on the Contracting or Guaranteeing of New Non concessional External Debt by the Government

Definition

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

25. The definition of debt as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: "(a) For the purposes of this guideline, the term "debt" will be understood to mean a current, i.e., not 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, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, including: (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 some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a), arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual

obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

26. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is superior to 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending under the Poverty Reduction and Growth Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

27. For purposes of this performance criterion, government is understood to include the government as defined in paragraph 2 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (i.e. public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

Performance criterion

28. The government as defined in paragraph 27 will not contract or guarantee nonconcessional external debt as defined in para. 26. This performance criterion is monitored on a continuous basis. It does not apply to: debt rescheduling and restructuring operations; import-related credit and pre-export financing secured on export contracts of less than one year maturity; and government or government-guaranteed CFAF borrowing from WAEMU residents.

Reporting requirements

29. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

F. Government Contracts Signed without Budgetary Appropriation

Definition

30. Government contracts are written contracts signed by the government to buy goods and services or to execute works.

Performance criterion

31. The government will not sign any contracts which create a financial obligation for the government without budgetary appropriation. This performance criterion is monitored on a continuous basis

Reporting requirements

32. The government will immediately report to Fund staff any contract signed without budgetary appropriation.

G. Government Contracts Signed by Single Tender

Definition

33. Government contracts are considered single-bid contracts when the government contracting agent, guided by the provisions of articles 76 to 79 of the Government Procurement Code, signs the contract with the contractor that he chooses without competitive tender.

Performance criteria

34. The share of government single-bid contracts granted by all the ministries will not exceed 20 percent of the total value of contracts signed by these ministries. This ceiling constitutes performance criteria for end-March and end-September 2005, and indicative targets for end-June and December 2005.

Reporting requirements

35. The government will report quarterly to the Fund staff, with a lag of no more than one month, the total value of contracts signed by all ministries as well as the total value of all single-bid contracts signed by these ministries, which are examined by the National Commission on the Administration's Public Contracts (CNCA).

H. Subsidies to SONACOS

Definition

36. Subsidies to SONACOS are current transfers paid by the government to that company.

Performance criterion

37. Until the finalization of the privatization of SONACOS, the government will not pay any subsidy to the company. This criterion will be monitored on a continuous basis as long as the government holds at least 50 percent of SONACOS's capital.

Reporting requirements

38. Until SONACOS is privatized, the government will immediately report to Fund staff any subsidy paid to SONACOS.

I. Subsidies to SENELEC

Definition

39. Subsidies to SENELEC are current transfers paid by the government to that company except those for fixed capital investment.

Performance criterion

40. The government will not pay any subsidy to SENELEC. This criterion will be monitored on a continuous basis.

Reporting requirements

41. The government will immediately report to Fund staff any subsidy paid to SENELEC.

J. Stock of Arrears of SONACOS

Definition

42. The stock of arrears of SONACOS includes all payments due by SONACOS and not paid within 60 days.

Performance criterion

43. The stock of arrears of SONACOS will remain nil at all times as long as the government holds at least 50 percent of SONACOS's capital. This performance criterion will be monitored on a continuous basis.

Reporting requirements

44. The government will immediately report to Fund staff any outstanding payment arrears of SONACOS, until it is privatized.

K. Stock of Arrears of SENELEC

Definition

45. The stock of arrears of SENELEC includes all payments due and not paid within 60 days.

Performance criterion

46. The stock of arrears of SENELEC will remain nil at all times. This performance criterion will be monitored on a continuous basis.

Reporting requirements

47. The government will immediately report to Fund staff any payment arrears incurred by SENELEC.

L. Stock of Debt of SONACOS

Definition

48. The stock of debt of SONACOS includes all loans contracted with local and foreign banks for the crop year 2004/05 as well as all other bank loans unrelated to that or subsequent crop years.

Performance criteria

49. The stock of debt of SONACOS will not exceed CFAF 35.5 billion on March 31, 2005, CFAF 25 billion on June 30, 2005, CFAF 14.5 billion on September 30, 2005, and CFAF 4 billion on December 31, 2005. The ceilings for March 2005 and September 2005 are performance criteria; those for June 2005 and December 2005 are indicative targets. These criteria and targets will apply as long as the government owns at least 50 percent of the capital of SONACOS.

Reporting requirements

50. The government and the BCEAO will report the stock of debt of SONACOS to Fund staff, on a monthly basis, with a lag of no more than one month.

M. Stock of Debt of SENELEC

Definition

51. The stock of debt of SENELEC includes all loans contracted with banks within the WAEMU region[1].

Performance criteria

52. The stock of debt of SENELEC will not exceed CFAF 52.5 billion on March 31, 2005, CFAF 48.4 on June 30, 2005, CFAF 46.6 billion on September 30, 2005, and CFAF 42.5 billion on December 31, 2005. The ceilings for March 2005 and September 2005 are performance criteria; those for June 2005 and December 2005 are indicative targets.

---

[1] The debt of SENELEC with banks outside the WAEMU region is subject to the continuous zero ceiling on non-concessional external debt defined in paras. 24-28.

Reporting requirements

53. The government and the BCEAO will report the stock of debt of SENELEC to Fund staff, on a monthly basis, with a lag of no more than one month.

III. Indicative Targets

Program indicative targets
(In billions of CFA francs, cumulative from the beginning of the year, unless otherwise indicated)

	3/31/05 Indicative target	6/30/05 Indicative target	9/30/05 Indicative target	12/31/05 Indicative target
Tax revenue	176.5	385.1	601.6	802.1
Wage bill	58.6	118.6	179.0	247.3
Current nonwage non-interest expenditures and domestically financed capital expenditures executed through exceptional payments procedures	21.0	21.0	21.0	21.0
Difference between the creditor flow in the treasury accounts of SN la Poste (postal service) and that in the deposit accounts at CCP and the saving accounts at CNE	0.0	0.0	0.0	0.0
Stock of net deposits in the correspondent accounts of the Treasury, excl. local authorities, public agencies, SN La Poste, IPRES and deposit and guarantee accounts	18.0	18.0	18.0	18.0
Stock of guarantee deposits of the government	0.0	0.0	0.0	0.0

A. Tax Revenue

Definition

54. Tax revenue is defined as reported in the government financial operations table (TOFE).

Indicative targets

55. Tax revenue will not fall below CFAF 176.5 billion for March 31, 2005, CFAF 385.1 billion for June 30, 2005, CFAF 601.6 billion for September 30, 2005, and CFAF 802.1 billion for December 31, 2005. These amounts are considered indicative targets under the program, for the respective dates.

Reporting requirements

56. The government will report to Fund staff preliminary tax revenue data monthly, with a lag of no more than one month, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

B. Wage Bill

Definition

57. The wage bill is defined as all government expenditure on wages, other compensation, bonuses, allowances, and social benefits granted to or paid for the benefit of civil servants and other public employees.

Indicative targets

58. The wage bill will not exceed CFAF 58.6 billion for March 31, 2005, CFAF 118.6 billion for June 30, 2005, CFAF 179.0 billion for September 30, 2005, and CFAF 247.3 billion for December 31, 2005. These amounts are considered indicative targets for the respective dates.

Reporting requirements

59. The government will report the wage bill data on a monthly basis to Fund staff, with a lag of no more than 45 days after the end of the month under consideration.

C. Ceiling on the Amount of Current Nonwage Non interest Expenditures and Domestically Financed Capital Expenditures Executed Through Exceptional Budgetary Procedures

Definition

60. Current nonwage non-interest expenditures are all current expenditures other than wage and interest payments as reported in the TOFE. Domestically financed capital expenditures are all capital expenditures that have not been financed using external resources. Exceptional payments procedures are treasury advances (*avances de trésorerie*).

Indicative targets

61. The sum of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional budgetary procedures will not exceed CFAF 21 billion on March 31, June 30, September 30, and December 31, 2005. These amounts will be considered indicative targets for the respective dates.

Reporting requirements

62. During the program period, the authorities will report to Fund staff, provisional data on a monthly basis on current non-wage non-interest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

D. Ceiling on the Stock of Net Deposits in the Correspondent Accounts of the Treasury, Excluding the Correspondent Accounts of Local Authorities, of Public Agencies, of SN La Poste, of IPRES and the Deposit and Guarantee Accounts

Definition

63. The stock of net deposits in the correspondent accounts of the Treasury is defined as the sum of the net credit balance in the entry balance sheet (*balance d'entrée*) of the year in question and the net inflows in those accounts during the same period. The following correspondent accounts are excluded from this benchmark: the accounts of local authorities (numbered 431 through 436); the accounts of public agencies (numbered 442); the accounts of SN La Poste (numbered 440-001); the account of IPRES with the number 462.01; and the deposit and guarantee accounts (numbered 466.13).

Indicative targets

64. The net deposits in the correspondent accounts of the Treasury as defined above will not exceed CFAF 18.0 billion on March 31, June 30, September 30, and December 31, 2005. These amounts are considered indicative targets for the respective dates.

Reporting requirements

65. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on net deposits in the correspondent accounts of the Treasury, as defined above, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

E. Difference between the Creditor Flow in the SN La Poste (Postal Service) Treasury Accounts and the Creditor Flow in the Deposit Accounts at the CCP and the Saving Accounts at the CNE

Definition

66. The net creditor flow on any date is defined as the difference between the cumulative amounts deposited on the accounts of SN La Poste at the Treasury and cumulative withdrawals from the same accounts since the beginning of the year under consideration. The net creditor flow of the deposit accounts at the Postal Check Office (CCP) and the saving accounts at the National Saving Office (CNE) on any date is defined as the difference between the cumulative amounts deposited on these accounts and cumulative withdrawals from the same accounts since the beginning of the year under consideration.

Indicative targets

67. The difference between the net creditor flow of the SN La Poste treasury accounts and the net creditor flow of the deposit accounts at the CCP and the saving accounts at the CNE will not become negative on March 31, June 30, September 30, and December 31, 2005. These amounts are considered indicative targets for the respective dates

Adjusters

68. The above amounts will be increased by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

69. The government will report to Fund staff the provisional flows of the SN La Poste accounts and the flows of the deposit accounts at the CCP and the saving accounts at the CNE on a monthly basis, with a lag of no more than 45 days. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

F. Ceiling on Government Guarantee Deposits

Definition

70. Government guarantee deposits are defined as government deposits in local and foreign banks used to guarantee bank loans.

Indicative targets

71. The stock of guarantee deposits will be nil on March 31, June 30, September 30, and December 31, 2005. This amount is considered indicative target for the respective dates.

Reporting requirements

72. The government will report the stock of government guarantee deposits to Fund staff on a monthly basis, with a lag of no more than one month after the end of each observation period.

IV. Prior Actions and Structural Performance Criteria, and Benchmarks

73. The program conditionality includes prior actions and structural performance criteria and benchmarks as reported in Table 3.

V. Additional Information for Program Monitoring

74. The authorities will report to Fund staff the following, with a maximum lag of 45 days, unless otherwise indicated:

- the monthly preliminary government financial operations table (TOFE), established with the treasury accounts (*balance des comptes*), with a maximum lag of two months;
- tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
- the monthly amount of committed expenditures and payment orders issued;
- preliminary treasury account balances, on a monthly basis, with a maximum lag of two months;
- the quarterly report of the Debt and Investment Directorate on execution of investment programs; and
- any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.

75. The central bank will report to Fund staff the following:

- the monetary survey, on a quarterly basis, with a lag of no more than two months;
- central bank and commercial bank loan and deposit rates, on a monthly basis; and
- prudential norms and soundness indicators for bank and nonbank financial institutions, as reported in *Situation des Etablissements de Credit vis-à-vis du Dispositif Prudentiel*, prepared by the BCEAO, on a quarterly basis.

Table 1. Senegal: Quantitative Performance Criteria and Indicative Targets for 2005

(In billions of CFA francs, cumulative from the beginning of the year; unless otherwise specified)

	March 31	June 30	Sept. 30	Dec. 31
	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets
Performance Criteria and Indicative Targets 1/				
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 2/	13.5	32.7	44.0	29.2
Ceiling on the cumulative change in net bank credit to the government	-16.1	-24.5	-27.3	2.5
Ceiling on government domestic payments arrears 3/	0.0	0.0	0.0	0.0
Ceiling on government external payments arrears 3/	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	0.0	0.0	0.0	0.0
Ceiling on the amount of government contracts signed without budgetary allocation 3/	0.0	0.0	0.0	0.0
Ceiling on the share of government contracts signed by single tender (in percent)	20.0	20.0	20.0	20.0
Ceiling on budgetary transfers to SONACOS 3/	0.0	0.0	0.0	0.0
Ceiling on budgetary transfers to cover SENELEC operating losses 3/	0.0	0.0	0.0	0.0
Ceiling on the stock of arrears of SONACOS 3/	0.0	0.0	0.0	0.0
Ceiling on the stock of arrears of SENELEC 3/	0.0	0.0	0.0	0.0
Ceiling on SONACOS' debt to the banking system	35.5	25.0	14.5	4.0
Ceiling on SENELEC's debt to the banking system	52.5	48.4	46.6	42.5
Indicative Targets 1/				
Floor on tax revenue	176.5	385.1	601.6	802.1
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	21.0	21.0	21.0	21.0
Ceiling on the wage bill	58.6	118.6	179.0	247.3
Floor on the difference between the net creditor flow in the treasury accounts of the postal service and the net creditor flow in the deposit accounts at the Centre de Chèques Postaux (CCP) and the saving accounts at the Caisse Nationale d'Epargne (CNE)	0.0	0.0	0.0	0.0
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	18.0	18.0	18.0	18.0
Ceiling on guarantee deposits of the government	0.0	0.0	0.0	0.0
Memorandum items:				
External budgetary assistance, excluding IMF	32.8	41.2	44.6	70.0
Grants	3.7	7.7	11.1	14.8
Loans	29.1	33.6	33.6	55.3
Programmed spending of HIPC debt relief	5.9	27.5	34.3	59.6

1/ Performance criteria, indicative targets and adjusters are defined in the Technical Memorandum of Understanding (TMU).

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.

3/ This criterion will be monitored on a continuous basis.

4/ This criterion excludes governement or governement-guaranteed CFAF borrowing from financial institutions within WAEMU.

Table 2. Senegal: Quarterly Government Financial Operations, 2005

	2005			
	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
	(In billions of CFA francs, cumulative since the beginning of the year)			
Total revenue and grants	199.5	434.4	689.5	922.4
Revenue	179.2	392.1	628.5	841.0
Tax revenue	176.5	385.1	601.6	802.1
Nontax revenue	2.7	7.0	26.8	38.9
Grants	20.3	42.3	61.0	81.4
Budgetary	3.7	7.7	11.1	14.8
Budgeted development projects	16.7	34.6	50.0	66.6
Total expenditure and net lending	207.6	485.5	753.5	1,049.8
Current expenditure	145.3	303.5	432.3	600.4
Wages and salaries	58.6	118.6	179.0	247.3
Interest due	9.2	23.8	31.0	43.2
Of which : external	7.9	21.0	27.1	37.9
Other current expenditure	77.5	161.1	222.4	309.9
o/w: HIPC current expenditure	2.5	5.2	7.5	10.0
Capital expenditure	62.3	162.3	298.5	422.9
Domestically financed	26.4	87.5	190.6	279.0
Non HIPC financed	23.0	65.2	163.8	229.4
HIPC financed	3.4	22.3	26.8	49.6
Externally financed	36.0	74.8	107.9	143.9
Treasury special accounts and correspondents (net)	0.0	0.0	0.0	0.0
Net lending	0.0	4.2	4.2	8.0
Temporary costs of structural reforms	0.0	15.5	18.5	18.5
Overall fiscal balance (including grants)	-8.1	-51.1	-64.0	-127.5
Overall fiscal balance (excluding grants)	-28.4	-93.4	-125.0	-208.8
Primary balance 1/	1.2	-27.3	-33.0	-84.2
Basic fiscal balance (program definition) 2/	13.5	32.7	44.0	29.2
Financing	8.1	51.1	64.0	127.5
External financing	42.2	71.5	80.1	127.1
Drawings	48.4	82.1	99.9	148.6
Program loans	29.1	33.6	33.6	55.3
Project loans	19.3	48.5	66.3	93.3
Amortization due	-12.4	-35.7	-49.4	-127.1
Debt relief and HIPC Initiative assistance 3/	6.2	25.1	29.6	105.7
Domestic financing	-34.1	-20.3	-16.1	0.3
Banking system	-16.1	-24.5	-27.3	2.5
Of which : issuance of new treasury bills	-17.0	-17.0	3.6	3.6
Nonbank financing	-18.0	4.2	11.2	-2.2
Of which : privatization receipts	0.0	0.0	1.1	1.1
Of which: Government bonds issued in WAEMU	-5.7	5.3	12.1	12.1
Errors and omissions	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
Total HIPC spending	5.9	27.5	34.3	59.6
Basic fiscal balance (WAEMU definition) 4/	7.6	-10.3	-8.8	-48.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.
3/ Assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, and on-lending.

Table 3. Senegal: Proposed Prior Actions, Structural Performance Criteria and Benchmarks for the Program under the PRGF Arrangement in 2005

Measures	Timetable	Status
Prior action for the second review		
• Approval by the National Assembly of article 19 in the 2005 budget law limiting the scope of article 45 of the State's Obligations Code to contracts amounting to less than CFAF 50 million or contracts approved by the Minister of Finance.		Implemented
• Promulgate the law on the elimination of the specific tax on refined vegetable oil.		Implemented
• Submit the end-year budget and treasury accounts of fiscal years 2002-03 to the Audit Court.		
Structural performance criteria		
• As described in the MEFP (para. 42), submit to the IMF staff the monthly table of the government's financial operations (TOFE) for January 2005.	March 31, 2005	
• Eliminate the specific tax on refined vegetable oil.	December 31, 2005	
Benchmarks		
• Produce a report on direct and indirect taxes due and collected in January 2005.	March 31, 2005	
• Produce reports on the execution of capital expenditures at end-June, end September and end-December 2004. The reports will include (i) the payments authorized by the Debt and Investment Directorate for each project; (ii) the funds transferred to the accounts of these projects in the banking system by the Treasury; (iii) the external funding allocated to these projects (grants, loans); and (iv) the external funds deposited in these accounts.	March 31, 2005	
• Improve the transparency of the Government's Table of Financial Operations (TOFE) in line with the recommendations of the AFR/FAD technical mission of February 2004 concerning the treatment of correspondent accounts and the different government definitions used in the TOFE and the net bank credit to government.	June 30, 2005	
• Preparation of a report on commitments, verification, payment orders and payment by major spending lines for the months January-June 2005, using the software "*Système Intégré de Gestion des Finances Publiques*" (SIGFIP).	July 31, 2005	
• Implement a new formula for electricity prices compatible with operator profitability.	October 1, 2005	